INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/135

QATAR

May 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR QATAR

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with Qatar, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 18, 2018 consideration of the staff report that concluded the Article IV consultation with Qatar.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 18, 2018, following discussions that ended on February 21, 2018 with the officials of Qatar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 12, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Qatar.

The document listed below will be separately released.

Selected Issues

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Press Release No. 18/202
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May 30, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with Qatar

On May 18, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Qatar.[1]

Growth performance remains resilient. The direct economic and financial impact of the diplomatic rift between Qatar and some countries in the region has been manageable. Non-hydrocarbon real GDP growth is estimated to have moderated to about 4 percent in 2017 due to on-going fiscal consolidation and the effect of the diplomatic rift. A self-imposed moratorium on new projects in the North Oil Field until the second quarter of 2017 and the OPEC+ deal had restrained the growth of hydrocarbon output, culminating in overall real GDP growth of 2.1 percent in 2017. Headline inflation remains subdued, primarily due to lower rental prices. The real estate price index fell by 11 percent in 2017 (year-on-year basis) following cumulative increase of 53 percent during 2013–16, reflecting increased supply of new properties and reduced effective demand.

The near-term growth outlook is broadly positive. Overall, GDP growth of 2.6 percent is projected for 2018. Inflation is expected to peak at 3.9 percent in 2018—as the impact of the value-added tax being introduced during the second half of 2018 would mostly be felt in that year—before easing to 2.2 percent in the medium term. The availability of significant external and fiscal buffers and the strong financial sector should enable the country to withstand downside risks, including lower-than-envisaged oil prices, tighter global conditions and an escalation of the diplomatic rift.

The underlying fiscal position continues to improve. The fiscal deficit is estimated to have narrowed to about 6 percent of GDP in 2017 from 9.2 percent in 2016. The deficit has been financed by a combination of domestic and external financing. Public debt (estimated at 54 percent of GDP as at end-2017) remains sustainable. The current account is improving in the context of increased oil and gas.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Qatar's banking sector remains healthy overall, reflecting high asset quality and strong capitalization. As at end-September 2017, banks had high capitalization (capital adequacy ratio of 15.4 percent), high profitability despite recent moderation (return on assets of 1.6 percent), low non-performing loans (ratio of 1.5 percent), and reasonable provisioning ratio of non-performing loans (85 percent). Nonetheless, real estate prices have been on a downward trend. Liquidity has been generally comfortable—with a liquid asset to total asset ratio of 27.3 percent—though bank reserves have declined since 2015.

Executive Board Assessment[2]

Executive Directors noted that considerable buffers and sound macroeconomic policies have helped Qatar successfully absorb shocks from lower hydrocarbon prices and the diplomatic rift with some countries in the region. Directors noted that while the economic outlook is broadly favorable, risks remain. They welcomed the authorities' continued commitment to prudent economic and financial policies, which are important to sustain the economy's resilience and promote diversified and inclusive growth.

Directors concurred that Qatar has ample fiscal space to continue with gradual fiscal consolidation to ensure sufficient saving of the hydrocarbon wealth for future generations. They supported efforts to enhance non-oil revenue, including putting in place a VAT and excises. Directors noted that strengthened expenditure control, with emphasis on further public-service reform and accelerated reform of the public utility companies, would help to improve economic efficiency. They also emphasized the importance of wage reform to reduce the public to private wage gap. Directors recommended that further enhancing the medium-term fiscal framework with a clear medium-term objective would help guide fiscal efforts. In addition, further improvement in the reporting of fiscal accounts would strengthen accountability, transparency, and policy effectiveness.

Directors noted that the banking sector is healthy with high asset quality and strong capitalization. However, they observed that the loan concentration in the real estate sector amid softening property prices warrants vigilance. Directors also highlighted that FinTech, which will likely create new challenges and opportunities, will require additional regulatory capacity. They supported the authorities' efforts to strengthen macro prudential regulation and consolidated supervision, and agreed that further progress in improving liquidity monitoring and forecasting would help in anticipating and planning for potential system-wide pressures. Directors encouraged the authorities to continue to strengthen the AML/CFT framework and address the identified gaps.

Directors concurred that the currency peg to the U.S. dollar continues to serve Qatar well, providing a clear and credible monetary anchor. They underscored that the exchange rate regime

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

should be reviewed periodically to ensure that it remains appropriate as the economy moves toward a more diversified export structure.

Directors supported the authorities' efforts to enhance economic diversification and promote private sector development. They welcomed reform efforts related to the labor law, privatization, special economic zones, and increased foreign ownership limits. They cautioned, however, that these efforts should avoid import-substitution strategies, and special tax incentives or labor policies that might result in market distortions. Directors considered that additional measures to improve the business environment, including contract enforcement and reform of the insolvency mechanism, will boost private sector growth prospects. They noted that laws promoting equal remuneration and discouraging gender-based discrimination would help contribute to inclusive growth. Directors encouraged the authorities to continue to enhance macroeconomic statistics.

Qatar: Selected Economic and Financial Indicators, 2014–19

	2014	2015	2016	2017	2018	2019
Production and prices						
Real GDP (2013 prices)	4.0	3.6	2.2	2.1	2.6	2.7
Hydrocarbon 1/	-0.6	-0.5	-1.0	0.2	1.0	1.2
Nonhydrocarbon	9.8	8.2	5.6	4.0	4.1	4.1
CPI inflation (average)	3.4	1.8	2.7	0.4	3.9	3.5
Public finance						
Total revenue	45.7	42.8	30.7	26.3	28.9	31.5
Expenditure	33.4	41.5	39.9	32.4	30.4	28.2
Current	25.0	28.0	21.4	18.6	15.8	15.7
Capital	8.4	13.6	18.5	13.8	14.6	12.4
Central government fiscal balance	12.3	1.3	-9.3	-6.0	-1.4	3.4
Money						
Broad money	10.6	3.4	-4.6	21.3	5.5	6.1
Credit to private sector	20.3	19.7	6.5	6.4	6.1	6.6
External sector						
Exports	126.7	77.3	57.3	65.1	75.9	76.2
Imports	-31.1	-28.5	-31.9	-34.1	-37.8	-35.7
Current account balance	49.4	13.8	-8.3	2.1	4.7	3.5
in percent GDP	24.0	8.4	-5.5	1.3	2.5	1.8
External debt (percent GDP)	48.6	73.8	110.9	88.0	86.6	82.7
Central bank reserves 2/	43.1	37.2	31.7	14.9	19.6	23.2
in months of imports	8.6	7.0	5.7	2.5	3.3	4.0
Exchange rate (Riyals/US$)	3.6	3.6	3.6	3.6	3.6	3.6
Real effective exchange rate (percentage change)	2.2	11.2	2.7	…	…	…

Sources: Qatari authorities; and IMF staff estimates.

1/ Includes crude oil, natural gas, propane, butane, and condensates.
(data reflect full transfers of Qatar Petroleum profits to the budget).

2/ Excluding QIA assets.

QATAR

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

April 12, 2018

KEY ISSUES

Context: With substantial financial buffers, prudent fiscal policy, and sound financial sector, Qatar's economy continues to successfully adjust to lower hydrocarbon prices, despite the diplomatic rift that is weighing on the outlook. The policy priorities are to entrench fiscal consolidation, maintain financial stability and deepen structural reforms to facilitate private-sector led growth and job creation.

Outlook and risks: Real GDP growth is projected to remain resilient, given ongoing infrastructure programs and expected scaling up of liquefied natural gas production. Fiscal and external balances are projected to improve in the near and medium term in view of efforts to rein in recurrent expenditure and introduce new tax measures. Downward risks to the outlook include lower hydrocarbon prices, delayed implementation of key fiscal measures, tighter global conditions, and an escalation of the diplomatic rift. Qatar's fiscal and external buffers would help address the related macroeconomic and financial implications.

Fiscal policy: There is sufficient space to continue with gradual fiscal consolidation to ensure adequate savings of the hydrocarbon wealth for the future generation. Efforts to enhance non-oil revenue including the introduction of a VAT and excises are appropriate. Strengthened expenditure control would help to improve economic efficiency. Further enhancing the medium-term fiscal framework with a clear medium-term objective will help guide fiscal efforts.

Financial sector: The banking sector remains healthy, with high asset quality and strong capitalization. A sound regulatory and supervisory framework has contributed to the resiliency of the banking sector. Further progress in improving liquidity monitoring and forecasting would help in anticipating and planning for potential system-wide pressures.

Economic diversification: Further advancing labor market and business climate reforms is key to achieving private sector-led economic growth, and further diversifying the economy. Fiscal reforms, including public employment reform are important to achieving economic efficiency and supporting the private sector. Laws that emphasize equal remuneration and discourage gender-based discrimination would help contribute to inclusive growth.

Approved By
Aasim M. Husain and Daria Zakharova

Discussions were held in Doha during February 4–21, 2018. The staff team comprised Mr. El Qorchi (head), Messrs. Adedeji, Shahid and Ms. Guscina (all MCD). Ms. Al-Riffai (OED) joined the mission during February 14–21. Mr. Roos provided research assistance. Mses. Kargbo-Sical and Panagiotakopoulou provided editorial support.

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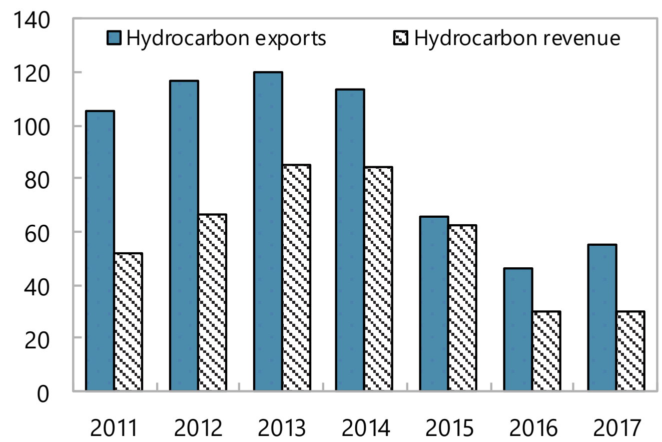
ANNEXES

CONTEXT AND BACKGROUND

1. **Qatar's economy continues to adjust successfully to lower hydrocarbon prices.** Following the 2014 oil price shock, export receipts and government revenues fell considerably. The availability of fiscal buffers has allowed a gradual fiscal consolidation anchored mainly on reducing current expenditures, with the merger of ministries and cuts in subsidies. Tariffs of some utilities (water and electricity) have been increased. Domestic fuel prices are now adjusted regularly in line with movements in international prices. These policy directions are broadly in line with staff's recommendations (Annex I). An infrastructure program in the amount of US$200 billion (equivalent to 121 percent of 2017 GDP) is underway to diversify the economy and prepare for the FIFA 2022 World Cup.

Dependence on Hydrocarbons

(Billions of US dollars)



Sources: Country authorities; and IMF staff estimates.

2. **The immediate direct economic and financial impact of the diplomatic rift between Qatar and some countries in the region has been managed effectively (Box 1).** Bahrain, Saudi Arabia, and the United Arab Emirates (UAE) severed diplomatic ties with Qatar in June, imposed trade measures and expelled Qatari nationals. These three Gulf Cooperation Council (GCC) countries and Egypt also closed their airspace to Qatar Airways flights, and Qatar's land border with Saudi Arabia has been closed. Some banks in the region also curtailed transactions with clients linked to Qatar. At the onset of the diplomatic rift, about one-sixth of Qatar's imports were produced in countries that imposed trade measures, and a significant portion of other imports transited through Saudi Arabia and the United Arab Emirates.

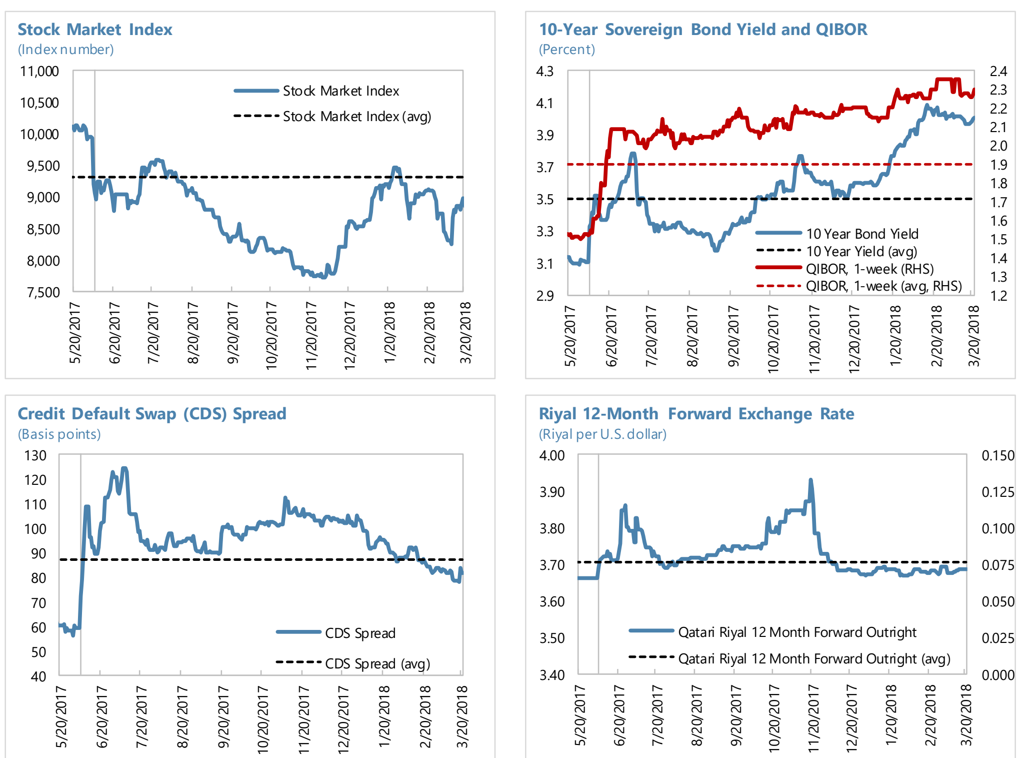
Box 1. Economic Implications of the Diplomatic Rift

While economic activity was affected by the compression in imports, this has been mostly transitory and new trade routes were quickly established. Trade has been re-routed through other countries in the region, culminating in significant recovery in imports. The implementation of key infrastructure projects remains unaffected due to the availability of inventory of construction materials and alternative, and competitive, sources of imports.

The banking system has also adjusted, thanks to support from the central bank and Qatar Investment Authority. Following the diplomatic rift, foreign financing (nonresident deposits and inter-bank placements) and resident private sector deposits fell by about US$40 billion (11 percent of total liabilities).[1] This decline has been offset by liquidity injections by the central bank and public-sector deposits, particularly from QIA. The decline in nonresident liabilities of banks has abated, obviating the need for further support of the QCB and QIA to the banking system, as banks mobilize funding from other (non-GCC) sources.

Authorities' policy responses have been appropriate and high frequency financial indicators, following the initial deterioration, are improving. Qatar's sovereign credit rating was downgraded in 2017. Macro-financial indicators are improving in 2018 compared to mid-2017: the CDS spreads have come down from historical highs, stock market and off-shore exchange rates have recovered. However, the yields on long-term sovereign bonds remain higher than a year ago. The authorities have launched an investigation into possible exchange and bond markets manipulation in the wake of the rift. So far, there has not been a marked macroeconomic impact of the rift on other GCC countries.

High Frequency Indicators for Qatar[1,2]



Sources: Bloomberg; and IMF staff calculations.

[1] Averages are calculated based on daily data from January 1, 2017 to current day.

[2] Vertical line in each chart marks the day the Saudi-led alliance cut diplomatic ties with Qatar (June 5, 2017).

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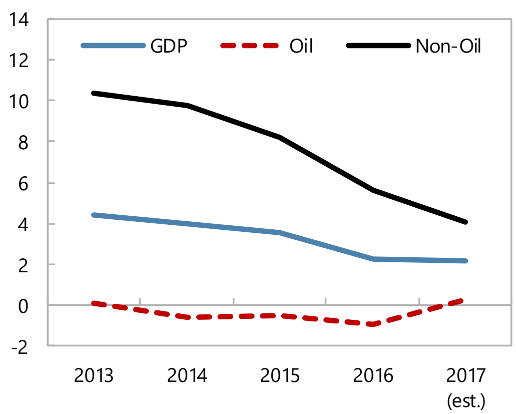
[1] Nonresident deposits fell from about US$51 billion in May 2017 to US$39 billion in September. Subsequently, they have stabilized at about US$38 billion.

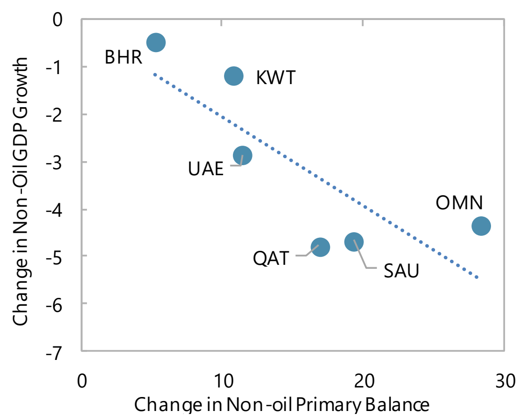
RECENT DEVELOPMENTS

3. **Economic activity has slowed due to on-going fiscal consolidation and the impact of diplomatic rift.** Non-oil real GDP growth decelerated to about 5.6 percent in 2016 (text charts), and is estimated to have moderated to 4 percent in 2017. Before it was recently lifted, a self-imposed moratorium on new projects in the North Oil Field and the OPEC+ deal had restrained hydrocarbon output. Headline inflation remains low, reaching 0.8 percent in February (year-on-year basis) (Figure 1).

Real GDP Growth
(Percent)



Fiscal Consolidation has Dampened Growth
(Percentage points of non-oil GDP, projected average 2016-17 minus average 2013-14)



Sources: Country authorities; and IMF staff calculations.
Note: The removal of subsidies may not be fully captured in the non-oil primary balance for Bahrain.

4. **The underlying fiscal position continues to improve (Figure 2).** Following a dramatic swing in the overall fiscal balance from a surplus of 1.3 percent in 2015 to a deficit of 9.3 percent of GDP in 2016 due to lower hydrocarbon prices, the fiscal deficit is estimated to have narrowed to 6 percent in 2017.[1] The associated non-hydrocarbon primary balance as a ratio of non-hydrocarbon GDP is estimated at about -31.4 percent in 2017 (compared to -40.4 percent in 2016 and -57.3 percent in 2015), as current spending is contained, and non-oil revenues (including user fees for government services) edged up.

5. **The budget deficit has been financed by a combination of domestic and external financing.** The 2016 fiscal deficit was financed through domestic borrowing and external financing (Qatar raised a total of US$14.5 billion of external debt in the same year). For 2017, the authorities relied mainly on domestic financing. The surge in resident deposits (particularly government institutions) allowed simultaneous increase in commercial banks' credit to government and private sector. Public debt (estimated at 54 percent of GDP by end 2017 and expected to fall to less than 40 percent in the medium term) remains manageable.

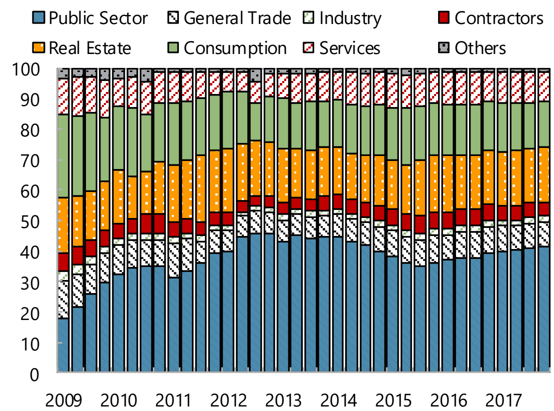
[1] The general government balance (defined as central government balance plus estimated Qatar Investment Authority returns) fell from a surplus of 5.3 percent of GDP in 2015 to a deficit of 4.7 percent in 2016. It is estimated to have improved to a deficit of 1.6 percent of GDP in 2017.

6. The current account is improving in the context of increased oil and gas prices (Figure 3). The current account position moved to a deficit in 2016, reaching 5.5 percent of GDP. A current account surplus of about 1.3 percent of GDP is estimated for 2017, as oil prices recovered and imports fell due to lower non-hydrocarbon growth. International reserves fell in response to capital outflows associated with the unprecedented diplomatic rift, reaching about US$15 billion at end-December 2017. International reserves have increased in early 2018, reaching US$18 billion by end-January.[2]

7. Monetary conditions have tightened and private-sector credit growth has been broadly stable (Figure 4). Qatar Central Bank (QCB) has increased the domestic policy rate broadly in line with the U.S. Federal Reserve, culminating in increased inter-bank interest rates (text chart). Private sector credit growth (6.4 percent y-o-y in January 2018) has kept pace with or slightly exceeded that of nominal non-oil GDP.

Distribution of Banks' Domestic Credit Facilities by Sector: 2009–17

(In percent of total)



Sources: Haver Analytics; and IMF staff calculations.

8. Qatar's banking sector remains healthy overall, reflecting high asset quality and strong capitalization. As at end-September 2017, banks had high capitalization (capital adequacy ratio of 15.4 percent), high profitability despite recent moderation (return on assets of 1.6 percent), low non-performing loans (ratio of 1.5 percent), and reasonable provisioning ratio of non-performing loans (85 percent). Nonetheless, the downward trend in real estate prices has to be monitored as lending to contractors and real estate represents about a quarter of total domestic credit (text chart and Figure 4). Liquidity has been generally comfortable—with a liquid asset to total asset ratio of 27.3 percent—though bank reserves have declined since 2015 (text chart).

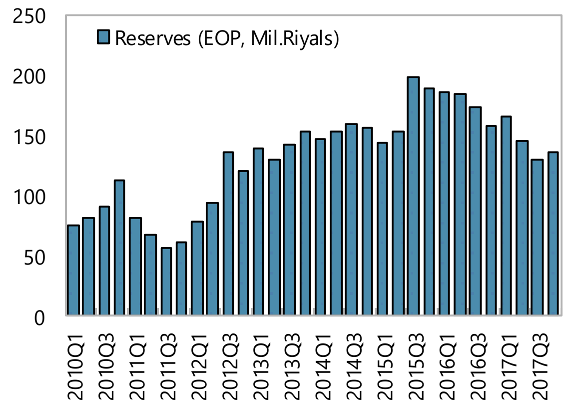
9. The currency peg remains appropriate. Qatar's trade structure is dominated by gas and related products on the export side, and high import content (including expatriate labor) in domestic production. Hence, the impact of the real exchange rate on net exports via price effects is limited. The peg to the U.S. dollar continues to serve Qatar well, providing a clear and credible monetary anchor. Nevertheless, the exchange rate regime should be periodically reviewed to ensure it remains appropriate as the economy moves towards a more diversified export structure. Staff's assessment suggests that the external position is moderately weaker than the

[2] Revisions to the external debt data have been made to correct for methodological issues**.** In particular, data on commercial banks' foreign liabilities previously included borrowing done by their foreign branches, and external debt of the non-financial private sector included external liabilities of their foreign branches. In line with international standards, these two elements have now been excluded from the external debt, culminating in lower external debt at end-2017 by about 36 percentage points of GDP.

level that would be consistent with sufficient saving of Qatar's exhaustible resource revenue (Annex II). However, with gradual fiscal adjustment (see below), the estimated current account gap could be closed in the medium term. Reserves are considered to be broadly adequate in view of the size of the sovereign wealth fund (Qatar Investment Authority, QIA).

Bank Liquidity and Reserves

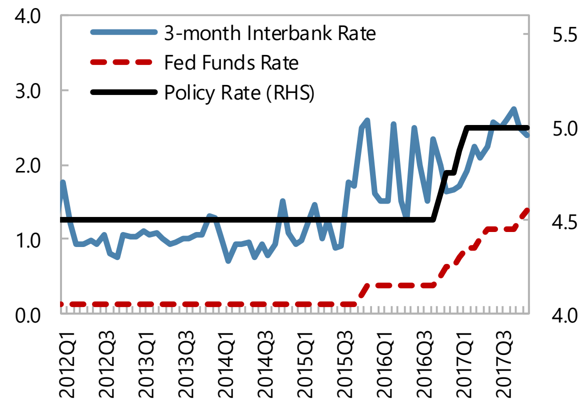
(Millions of QR)



Sources: Qatar Central Bank; Haver.

Interest Rates

(Percent)



Sources: Qatar Central Bank; Haver.

MACROECONOMIC OUTLOOK AND RISKS

10. Medium-term macro-financial outlook is expected to remain broadly favorable:

- **Growth:** Overall GDP growth of 2.6 percent is projected for 2018. While the implementation of the public investment program and a slower pace of fiscal consolidation would help support growth, the continued diplomatic tensions could weigh on confidence. During 2019–23, growth is envisaged to average about 2.7 percent, supported by the authorities' intention to increase liquefied natural gas (LNG) production capacity by about 30 percent, while the tapering of public investment growth would moderate non-oil growth to 4 percent annually. Inflation is expected to peak at 3.9 percent in 2018—as the impact of the value-added tax (VAT) being introduced during the second half of 2018 would mostly be felt that year—before easing to 2.2 percent in the medium term.

- **Fiscal and external balances are projected to improve in the near and medium term.** In 2018, continued expenditure restraint, higher oil prices, and the introduction of the VAT would help support a narrowing of the fiscal deficit to -1.4 percent of GDP, with a non-hydrocarbon primary deficit as a ratio of non-hydrocarbon GDP of about 30 percent (compared to 31.4 percent in 2017). The current account position would remain in surplus of about 2.5 percent of GDP in 2018 due to higher oil prices. Over the medium term, the current account and fiscal position would be in modest surplus in line with the evolution of hydrocarbon prices. While government's ability to support banks' balance sheets remains strong and banks are expanding their sources of financing, the ongoing diplomatic rift and expected further monetary policy normalization in the U.S., which directly affects Qatar via the peg of the Qatari riyal to the dollar, could somewhat dampen private sector credit growth, which in turn would keep the expansion of non-hydrocarbon activity at a moderate pace.

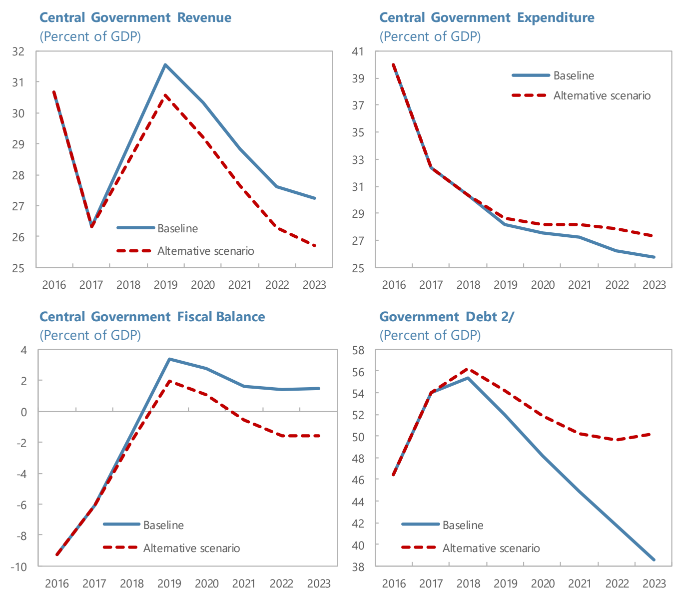
11. The main risks relate to the possibility of lower hydrocarbon prices, the delayed implementation of planned fiscal measures (see Risk Assessment Matrix, Annex III), and uncertainty associated with the lingering impact of the diplomatic rift:

External Risks

- Macro-financial linkages can amplify the effects of lower oil prices, as weaker government spending can lead to slower non-oil growth, weaker credit growth, and some deterioration in the quality of bank loan portfolios. However, the availability of government financial assets would help to contain the adverse economic implications of such a scenario. The authorities' stress tests indicate that banks would maintain high capital adequacy ratios in the face of severe and protracted shocks.

- Tighter global financial conditions could raise funding costs and market risks for both the sovereign and banks.

Fiscal and Debt Positions 1/



Sources: Country authorities; and IMF staff estimates.
1/ This scenario assumes that current expenditures as a ratio of GDP would remain constant during 2017-2023. The capital expenditure as a ratio of GDP is also higher under this scenario. The revenue impact of VAT is also excluded.
2/ It is assumed that the central government deficit is entirely financed through borrowing. The government net debt position would remain comfortable given large available financial assets.

- An escalation of the diplomatic rift could weigh on confidence, with potential adverse impacts for access to external credit and growth. In such a situation, additional liquidity injection from government would be required. Acceleration of structural reforms would be important to ensure that the economy remains competitive and attractive for investment. Banks' balance sheets are sufficiently healthy to withstand big shocks and the financial buffers at the disposal of the authorities are sufficient to provide additional support, if needed. The financial position of the non-financial corporate sector is broadly sound and able to withstand adverse shocks (Box 2).

Domestic Risks: Higher fiscal deficit, current account deficit, and public debt could emerge from delayed implementation of key fiscal measures (text chart).

12. The authorities broadly agreed with staff's assessment of the outlook and risks. They shared staff's view on hydrocarbon prices being the main channel through which global economic developments affect Qatar, while recognizing the increasing linkage with global financial markets. They reiterated their efforts to decouple the evolution of government's expenditures from oil and gas prices. They remarked that growth could turn out to be higher in view of on-going efforts to enhance domestic production of selected food items and encourage tourism, and inflation could be lower compared with staff's projection in 2018. They pointed out that imports could be lower due to efforts to enhance domestic production and the use of competitive sources of imports, culminating in higher reserves in months of imports compared with staff's projections. The authorities were of the view that the macroeconomic and financial impact of the diplomatic rift had been contained, and indicated that the availability of significant external and fiscal buffers and the strong financial sector would enable the country to continue to withstand downside risks.

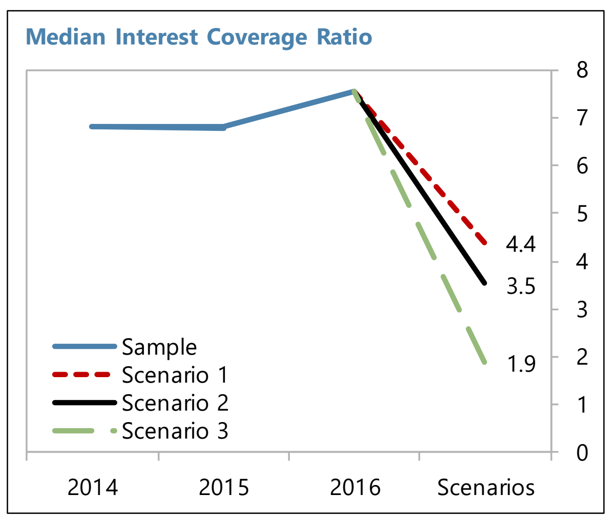
Box 2. Performance and Vulnerabilities of Qatar's Nonfinancial Corporate Sector[1]

Qatar's non-financial corporate sector (NFC) is sizeable in terms of its overall share of economic activity. The total turnover of these companies was US$28 billion in 2016 (about 18 percent of total GDP and one-quarter of non-hydrocarbon GDP). Assets of listed and non-listed NFCs in Qatar were estimated at about 115 percent of non-hydrocarbon GDP in 2016. The NFC is highly concentrated, with the services sector representing more than 81 percent of total NFC assets**.** The manufacturing and primary sectors represent a combined 19 percent of total NFC assets.

Profitability of Qatari corporates has declined since 2012. Qatar's NFCs remain profitable but the decline in their profitability, especially in 2015–16 in the context of lower non-hydrocarbon GDP growth, fiscal consolidation, and reduced oil prices, is consistent with the experience of other countries in the GCC.

Stress tests, used to assess the resilience of the Qatari NFC sector, suggest that the sector is resilient to funding and earnings shocks.

The baseline median interest coverage ratio (ICR) in 2016 was 7.6. ICR falls progressively as the severity of the stress scenarios increases. However, under each scenario the ICR stays above the debt-at-risk threshold of ICR = 1, indicating that the Qatari NFC sector is protected from negative shocks to funding and earnings. Corporates' debt-at-risk and firms at risk remain limited under all but the most severe scenario.

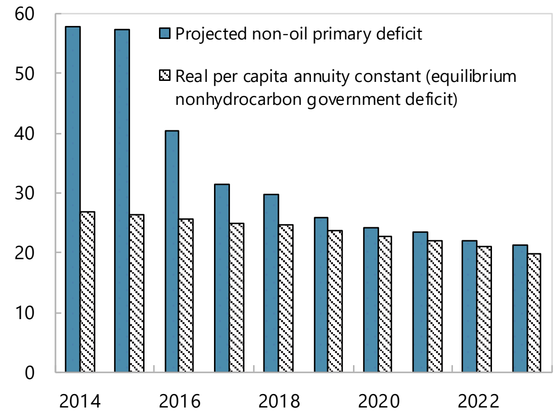


[1] See accompanying Selected Issues Paper, "Performance and Vulnerabilities of Qatar's Non-Financial Private Sector".

POLICY DISCUSSIONS

A. Achieving Intergenerational Equity

Non-hydrocarbon Primary Deficits and PIH-Based Benchmarks, 2014–23
(In percent of non-hydrocarbon GDP)



Source: IMF staff calculations.
Notes: Benchmark non-hydrocarbon primary deficit is calculated using the Permanent Income Hypothesis (PIH) under the assumption of constant real per capita annuity. Projections until 2023 use WEO assumptions. After 2023, the baseline scenario assumes flat hydrocarbon production and annual oil price growth of 2 percent, population growth of 1.5 percent (this includes a departure of construction and other workers after the investment projects are completed), and real return on assets of 4 percent. Projected non-hydrocarbon primary deficit excludes portions of QP investment income and corporate income tax (that come from hydrocarbon activities).

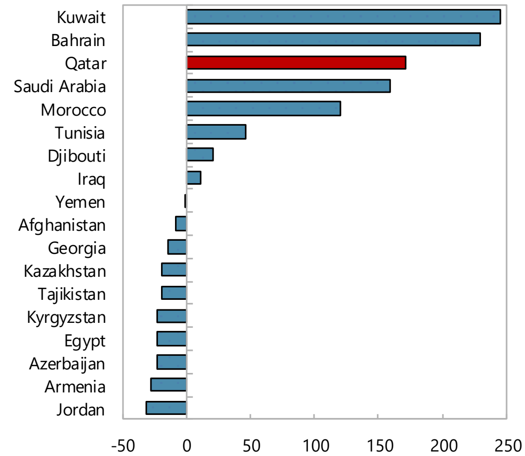
13. Continuing gradual fiscal consolidation over the medium term will help ensure adequate saving of the exhaustible hydrocarbon wealth for future generations. The non-hydrocarbon primary balance consistent with intergenerational equity is the appropriate anchor for assessing the fiscal position in Qatar[3], given ample oil and gas reserves. With fiscal consolidation that has already taken place during 2016–17, the estimated gap between the non-hydrocarbon primary balance derived from this framework and the actual non-hydrocarbon primary balance in 2017 was about 6 percentage points of non-hydrocarbon GDP. Gradual fiscal consolidation is appropriate in view of significant policy space (large fiscal and external buffers accumulated in the Sovereign Wealth Fund, still favorable terms of external borrowing, and the need to avoid more pronounced slowdown in growth due to a more ambitious fiscal consolidation path).[4] Continuation with on-going and planned fiscal consolidation (including enhancing non-oil revenue and controlling public spending) will help to close the remaining fiscal gap. This gradual approach is appropriate, given the authorities' large buffers; they have the space to go even slower in the event of adverse shocks or if cyclical conditions warrant.

[3] The non-hydrocarbon primary fiscal balance that would permit maintaining government spending constant in real per capita terms even after hydrocarbon wealth is exhausted. The intergenerational equity level of the non-hydrocarbon primary balance is derived from the permanent income hypothesis (PIH), which estimates a constant real per-capita annuity of the sum of discounted values of future oil receipts and financial assets.

[4] Qatar's accumulated savings represent around 334 percent of the stock of government debt in 2017, and cover more than 112 times the projected fiscal deficit for 2018. The borrowing conditions are still favorable (e.g., the yield on 10-year government bonds is presently about 3.6 percent and monetary policy normalization in the U.S. and other advanced economies is likely to be gradual) and global financial market conditions should remain supportive.

14. Staff and the authorities agreed that effective prioritization and sequencing of the fiscal reforms will maintain reform momentum. Going forward, the authorities plan a more balanced composition of adjustment that focuses on addressing underlying spending and revenue inefficiencies, and makes space for growth-friendly expenditure to help support macro-financial outlook, with the following key elements:

Ratio of Public to Private Sector Wages[1/]
(Percent, latest available)



Source: Country authorities, national labor force surveys, and ILO. Data for Morocco from World Bank (2011).
1/ Average public sector wage over average private sector wage, except for Tajikistan, Iraq and Djibouti where the numbers represent wage premium estimates obtained after controlling for employee characteristics (IMF (2016)).

- The baseline (in line with the authorities' policy intention) incorporates further fiscal consolidation, including limiting the growth of the public wage bill and of expenditure on good and services (generating about 2 percentage points of GDP in the medium term), and reduced public investment (from about 14 percent of GDP in 2017 to 9 percent in 2023, similar to the ratio in 2013) as 2022 World Cup related projects reach completion. While the introduction of VAT would help to increase revenue, the increase in other non-oil revenues (including charging for the use of government's services) is not expected to keep pace with the nominal growth of GDP.

- The authorities are making progress in implementing the VAT by the second half of 2018. According to staff's estimates, revenue from VAT at a rate of 5 percent would bring additional revenue of about 1.2 percentage points of GDP per year (already incorporated in the baseline). Nonetheless, potential technical challenges, including timely introduction of the implementing regulation for the VAT and integration of IT could delay the introduction of VAT (targeted for mid-2018). While recognizing these challenges, the authorities are confident that these new tax measures will be implemented by the second half of 2018.

Prices for Energy Products: GCC and the United States
(Latest available)

	Gasoline	Diesel	Electricity
	(U.S. dollars per liter)		*(U.S. dollars per KWh)*
Bahrain	0.38	0.37	0.04
Kuwait	0.31	0.36	0.02
Oman	0.48	0.53	0.04
Qatar	0.45	0.42	0.05
Saudi Arabia	0.22	0.10	0.10
UAE	0.50	0.53	0.12
GCC average	0.39	0.39	0.06
U.S. Prices	0.55	0.52	0.10

Sources: Prices for GCC countries come from country authorities and are averages for 90 and 95 octane gasoline. U.S. gasoline (average for mid and high grade) and diesel prices come from the U.S. Energy Information Agency (EIA) and are adjusted for taxes. Electricity tariffs for the United States include taxes and come from EIA.

- Staff emphasized the importance of wage reform. The public to private wage gap in Qatar is 171 percent, in line with the large wage gaps in the GCC countries. Staff recommended that the wage bill can further be reduced in the first stage by tightening eligibility for allowances and reducing the staff size by natural attrition. In staff's assessment, and given Qatar's significant fiscal space, restructuring based on well designed and implemented public sector employment reforms need to be approached gradually and in tandem with education and labor market reforms. The authorities highlighted their efforts to undertake a comprehensive assessment of workforce requirements in the public sector, which they expect to deliver results in line with staff's recommendation.

- Staff considered the authorities' direction of the energy and water price reforms to be appropriate. Gradually reducing energy subsidies (water and electricity, text table) [5], while putting in place robust mechanisms to protect the most vulnerable segments of the population remains important. The authorities pointed out that utility companies will continue to focus on cost recovery and these companies have a 10-year plan to achieve full market-price commercialization. Staff encouraged the authorities to adopt a more accelerated reform plan to ensure that the economy can reap the benefits of enhanced efficiency in the short to medium term.

15. Fiscal efforts should continue to be guided by a medium-term fiscal framework with a clear medium-term objective. Staff welcomed the formulation of a medium-term fiscal framework (MTFF) by the authorities, with key macroeconomic assumptions. The focus should now be on preparing the medium-term budget framework (MTBF) by matching the MTFF with a bottom-up estimation of the costs of existing policy and integrating the MTBF in the annual budget process. Gradually turning the MTBF into a performance based medium-term expenditure framework (MTEF) would be useful. The authorities emphasized that enhanced capacity and technical assistance from the Fund could be required in moving to a medium-term budget framework and performance-based budgeting system. Strengthening the monitoring of public expenditures, particularly capital spending will help improve efficiency. Enhanced fiscal reporting (frequency, timeliness, and analysis), including of government financial transactions would help strengthen accountability and transparency. The authorities emphasized the progress made in establishing the Macro-Fiscal Unit and the initiatives of the public investment unit to ensure improved efficiency of public investment.

16. Staff and the authorities agreed that enhanced asset-liability management framework remains important. Deficit financing, particularly in the near term, should avoid crowding out private sector credit growth (Annex IV). The appropriate mix between the various borrowing and investment options should be guided by a comprehensive asset/liability management framework that considers macro-financial implications, including the impact on debt sustainability, domestic liquidity, credit to the economy, and central bank reserves. The authorities plan to use future fiscal surpluses to build up the reserves of QCB and increase asset holdings of QIA. Nonetheless, while recognizing that the QIA has substantial assets, staff emphasized the importance of enhancing QCB's reserves. In this regard, the QCB foreign

[5] According to an MCD paper on energy price reform in Arab countries (see "If Not Now, When? Energy Price Reform in Arab Countries", April 2017), removal of subsidies on electricity and gas would yield additional revenue of about 4 percent of non-hydrocarbon GDP in Qatar.

exchange reserves increased from US$15 billion as at end-2017 to US$18 billion as at end-February 2018.

B. Maintaining Financial Stability

17. The authorities continue to enhance the existing framework for liquidity management and forecasting. QCB has managed liquidity appropriately, as reflected by low variability in interbank rates. Emphasis has been placed on greater coordination and information sharing between the central government, QCB, and QIA. However, developing a liquidity forecasting framework would further enhance QCB's ability to manage the timing and size of liquidity management operations. Strengthening market analysis capability as well as the coverage of the balance of payments and improving clarity of government's transfers in and out of the sovereign wealth fund would help enhance the accuracy of liquidity forecasts.[6] The authorities agreed with staff's recommendations to further strengthen liquidity management and forecasting.

18. A robust regulatory framework and effective supervision have helped ensure the resilience of the financial system. Banks are under Basel III regulations for capital, liquidity, and leverage and banks meet the regulatory standards, even under shock scenarios (Box 3). The banking system is characterized by high loan concentrations—particularly real estate loans—and connected lending. The on-going efforts that focus on bolstering macro-prudential regulations, and strengthening consolidated supervision would help to prevent and mitigate systemic risks. QCB introduced a new loan-to-deposit requirement of 100 percent that came into effect in January 2018 to further improve the liquidity profile of the banking system and its asset quality. The staff and the authorities agreed that further strengthening financial sector surveillance to detect in a timely fashion emerging pressures, including those related to liquidity, real estate sector, the impact of U.S. monetary policy normalization, and the on-going diplomatic rift would help in planning for and addressing potential system-wide pressures. Basel IV, once adopted, could significantly increase risk-weights, thereby impacting banks' capital ratios, credit risk management, pricing, processes and disclosure. Thus, an impact study by QCB of Basel IV on banks' capital adequacy ratios would be useful to inform the appropriate speed of its implementation. The rise of FinTech will create new challenges for financial sector regulators as well as opportunities for developing domestic financial markets and fostering innovation, which requires enhanced capacity in this area.

19. Developments in the real estate market and the related price movements warrant vigilance. The real estate price index fell by about 10 percent in 2017 (year-on-year basis) following cumulative increase of 53 percent during 2014–16, reflecting increased supply of new properties and lower effective demand.[7] Though banks have substantial loss absorption capacity in terms of capital and loan loss provisioning, a sharper decline in property prices presents a risk

[6] See "Financial Stability and Liquidity Management in the Context of Low Oil Prices" (Qatar: Selected Issues Paper, March 2017).

[7] Real estate valuation was assessed to be in the upper end of the range consistent with fundamentals in 2015 (IMF Country report No.15/86).

to the banking system given its sizable exposure to the real estate sector. While the banking sector can withstand even a very sharp deterioration in real estate prices and rise in NPLs (see Box 3), in its supervisory role, QCB should periodically revisit the existing macroprudential measures, such as real estate exposure limits, loan-to-value and loan-to-deposit ratios and recalibrate these as needed to ensure that they are sufficiently countercyclical. Enhanced real estate statistics would facilitate monitoring of developments in the sector.

20. Efforts are ongoing to develop financial markets and strengthen their financial integrity. Deeper domestic financial markets will promote saving and offer greater borrowing as well as investment opportunities. QCB liquidity injections and increased public-sector deposits have helped mitigate the funding pressures on Qatari banks in the wake of the diplomatic rift. The banking system will need to continue to enhance deposit mobilization and further diversify sources of its financing. Deepening domestic financial markets, especially domestic government and corporate bond markets, should continue to be a priority reform area to support non-hydrocarbon private sector growth. Developing financial markets, ensuring financial inclusion and fostering financial innovation (FinTech) that seeks to reach out to a broader base through cost-effective technology are a cornerstone of the authorities' Second Strategic Plan for the Financial Sector. Emphasis should be placed on improving the functioning and liquidity of local government securities market and developing a reliable yield curve, as this would help in monetary policy transmission and liquidity management, as well as provide a reliable benchmark for corporate issuances. Stable, predictable, and transparent issuance policy would help with functioning of the market. A published Medium-Term Debt Management Strategy would provide a longer vision for debt market development and issuance plans, strengthen the relationship with creditors, and reduce investor uncertainty.

21. Staff and the authorities discussed progress in enhancing AML/CFT effectiveness. The authorities are putting in place a comprehensive mechanism to implement targeted financial sanctions and managing risks posed by non-profit organizations. In addition, priority is being given to the combating of terrorist financing legal framework, and the assessment of national risks. These efforts are supported by technical assistance from the Fund and other institutions. Staff encouraged the authorities to proactively close any identified gaps in their AML/CFT framework, including in preparation for the forthcoming AML/CFT assessment scheduled for 2019.

Box 3. Assessing the Resilience of the Banking System to Macroeconomic Shocks[1]

Staff's macro-credit risk model was used to identify structural vulnerabilities in the banking system and assess its resilience to shocks. The regression analysis on macroeconomic and bank-specific determinants of NPL ratios suggests that bank-level NPL ratios exhibit strong auto-correlation and appear to be driven by non-oil private sector growth, credit growth to private sector, and the developments in the stock market. Bank-level determinants also matter—bigger and better capitalized banks tend to have lower NPLs the following year.

Stress test results indicate that Qatari banks can withstand very severe macroeconomic shocks. Using the parameter estimates from the regression exercise and staff projections for macroeconomic variables, the future path of NPLs and its impact on banks' CARs were projected under baseline and shock scenarios. Given the strong starting position of Qatar's financial system, with low NPLs, adequate provisioning, and solid profitability, banks can comfortably withstand higher NPLs and lower profits brought about by macroeconomic shocks. The combined capital of banks in the sample would remain above QCB's prescribed regulatory minimum of 10 percent CAR under the shock and severe shock scenarios. Under the shock scenario, the NPLs would rise to about 9 percent and a capital adequacy ratio (CAR) would drop to 15 percent two years after the shock. Even under the severe stress scenario, with the oil price dropping to US$25 per barrel and private sector nonoil activity contracting by 3 percent a year for three years, the aggregate CAR would stay above the 10 percent prudential minimum, but 2 banks would fall below the regulatory minimum two years after the shock. These results are broadly in line with the QCB's own stress tests, which indicate that banks can withstand a very sharp deterioration in NPLs before the prudential minima are breached.[2]

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[1] See Selected Issues Paper, "Assessing the Resilience of the Banking System to Macroeconomic Shocks in Qatar."

[2] According to QCB's 2016 Financial Stability Report, NPLs of 18 percent lead to a drop in aggregate CAR to 12.5 percent.

C. Achieving Private Sector Development and Improving Statistics

22. The Qatari economy remains competitive, though certain areas deserve attention (Figure 6). Qatar has fallen to 25th place (out of 137) in the World Economic Forum's Global Competitiveness Index (2017–18). Nonetheless, it still ranks ahead of most emerging markets, a reflection of a stronger infrastructure base. While recognizing measurement limitations, the World Bank's Ease of Doing Business Index ranks Qatar at 83 out of 190 countries, which is below the GCC average on account of a number of indicators, including access to credit and contract enforcement. Though Qatar is doing better than some GCC countries in terms of educational outcomes, there is considerable room for improvement.

23. Authorities are advancing a structural reform agenda to improve the business environment, with the diplomatic rift having provided impetus to speed up such reforms. The diplomatic rift has acted as a catalyst for enhancing domestic food production and reducing reliance on a small group of countries. Though a welcome move, staff recommended that self-reliance should not translate into import-substitution policies with attendant inefficiencies, but rather be used to tap into regional and global value chains. Qatar's privatization initiatives in some sectors, for example health and education, are a good step and will enhance efficiency in these sectors. Authorities also plan to set up special economic zones (SEZs), which are expected to stimulate diversification efforts and encourage FDI. In establishing SEZs, staff encouraged the authorities to carefully design incentives and labor policies to avert market distortions. In addition, such schemes should also be cognizant of the objective to reduce fiscal dependence on hydrocarbons. The authorities indicated that such consideration would indeed inform the design of the modalities for the operation of SEZs.

24. Qatar could make further progress in enhancing contract enforcement by reducing the time and cost associated with settling commercial disputes and by strengthening the insolvency mechanism. The Supreme Council for Economic Affairs and Investment has approved the second national development strategy that would help address some of these challenges. Work is on-going on ensuring majority foreign ownership of companies. In addition, Qatar has announced a visa-free entry program for 80 nationalities to stimulate tourism, approved a draft law to grant permanent residency to foreigners who provide "outstanding services to Qatar", put in place a worker dispute settlement committee, and a trust fund in case workers face bankruptcy. In addition, the authorities are considering establishing a minimum wage under the International Labor Organization (ILO) framework and a new law to protect expatriate labor providing domestic help.

25. Women's economic empowerment is macro-critical. Female literacy in Qatar is impressive at about 98 percent in 2014. While Qatar's female labor force participation has been increasing in recent years, it is still only about 37 percent. Laws that mandate equal remuneration and discourage gender-based discrimination would help promote equality. In this regard, Qatar's National Vision 2030 emphasizes increased participation of women in economic activity to achieve a more sustained and inclusive growth and development.

26. The authorities continue to enhance macroeconomic statistics. Progress is being made in conducting a quarterly investment survey, compiling fiscal data according to the Government Finance Statistics Manual (GFSM) 2001, and subscribing to the Special Data Dissemination Standard (SDDS). QCB expressed its intention to compile and disseminate the Reserves Data Template fully in line with the Guidelines for a Data Template. The mission recommended that accelerated efforts should be made to disseminate the financing components of central government operations, central government domestic debt, and external debt. The authorities expressed their commitment to addressing remaining data gaps to ensure subscription to the SDDS.

STAFF APPRAISAL

27. Qatar's economy has successfully absorbed the shocks from lower hydrocarbon prices. Favorable initial conditions, underpinned by considerable fiscal and external buffers, prudent fiscal policy, and a sound financial sector have supported the resiliency of the economy. Infrastructure programs and the expected increase in LNG production capacity will support growth over the medium term. Continued prudent fiscal policy and accelerated structural reforms will help ensure that the economy remains competitive and attractive for investment.

28. Qatar has ample fiscal space to continue with its gradual fiscal consolidation as planned to ensure sufficient savings of the hydrocarbon wealth for the future generation. Fiscal reforms should continue to focus on addressing underlying spending and revenue inefficiencies in order to make space for growth-friendly expenditure. The implementation of a simplified VAT and excises would lay the foundation for an efficient tax system and constitute a significant step toward revenue diversification. Strengthened expenditure control with emphasis on containing the wage and other public service benefits, social transfers and remaining subsidies, would help generate additional savings while contributing to improved economic efficiency. These should be complemented with enhancing the medium term fiscal framework with a clear medium-term objective and introducing a medium-term budget framework and an eventual performance-based budgeting system. Similarly, further improvement in the reporting of fiscal accounts—in terms of frequency, timeliness, and supporting analysis—would help strengthen accountability, transparency, and—ultimately—fiscal policy effectiveness.

29. Banks remain healthy, with high asset quality and strong capitalization. An effective regulatory and supervisory framework has helped to ensure a resilient banking system. Increased attention should be paid to banking sector's asset quality in light of the ongoing softening of real estate prices. The central bank should undertake an impact assessment of the introduction of Basel IV with a view to setting an appropriate speed of implementation. The evolution of FinTech is expected to create new challenges for financial sector regulators as well as opportunities for developing domestic financial markets and fostering innovation, which requires advancing capacity in this area. In liquidity management, further progress in enhancing monitoring and forecasting would help in anticipating and planning for potential system-wide pressures.

30. Structural reforms that focus on private sector development and economic diversification would help ensure stronger, sustainable, and more inclusive growth. Authorities' reform efforts relating to labor law, privatization initiatives, special economic zones, and increased foreign ownership limits are welcome. Attempts at enhancing domestic food production should avoid import-substitution strategies, with attendant inefficiencies. In designing and implementing special economic zones, special attention should be paid to ensuring that any tax incentives and special labor policies do not result in market distortions. Additional measures to further improve the business environment, including enhanced contract enforcement and strengthened competition through reform of the insolvency mechanism, will boost the private sector's growth prospects. Laws that promote equal remuneration and discourage gender-based discrimination would help contribute to inclusive growth.

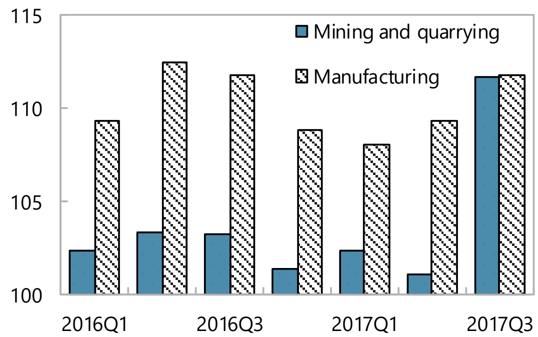
31. The fixed exchange rate regime remains appropriate for Qatar. The peg to the U.S. dollar continues to serve Qatar well, providing a clear and credible monetary anchor. The exchange regime should be reviewed periodically to ensure that it remains appropriate, as the economy moves towards a more diversified export structure. Although the external position is assessed to be moderately weaker than the level consistent with adequate saving of Qatar's exhaustible resource revenue, sustaining the baseline fiscal plans over the longer term would close the estimated current account gap.

32. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Real Sector Developments

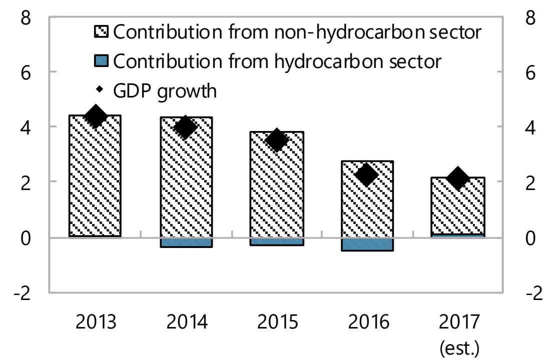
After moderating, the industrial production points to some recovery...

Industrial Production Index
(2013=100)



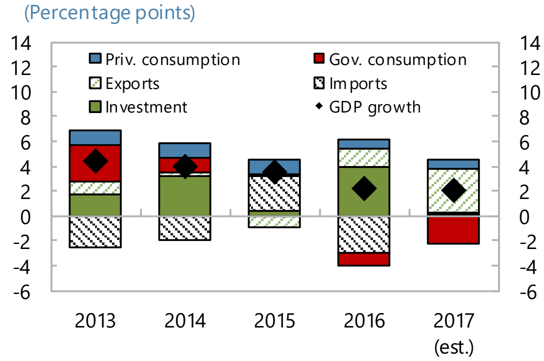
...though the non-hydrocarbon growth is slowing.

Oil and Non-oil Contributions to Real GDP Growth



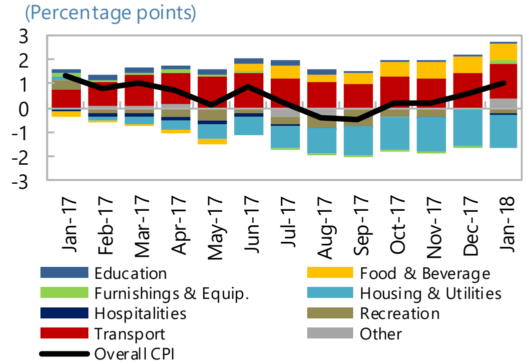
Reduced government consumption is contributing to lower growth...

Contributions to Real GDP Growth
(Percentage points)



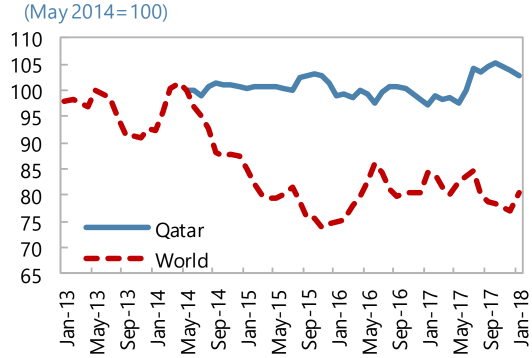
...while inflation remains subdued.

Year-on-Year CPI Growth Contributions, by Category
(Percentage points)



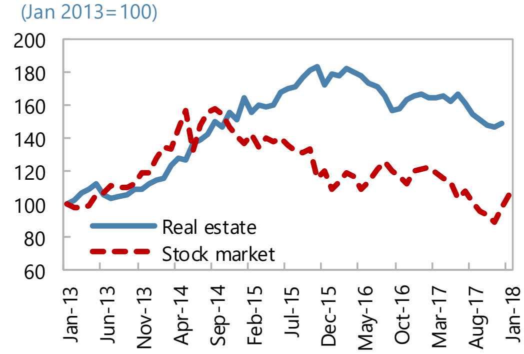
Food price index in Qatar has remained steady.

Food Price Index
(May 2014=100)



Real estate market and stock market price indices have been declining.

Real Estate and Stock Market Indices
(Jan 2013=100)

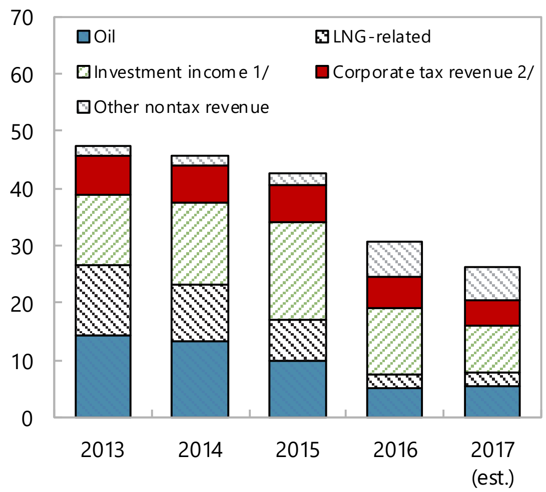


Sources: Country authorities; Bloomberg; and IMF staff calculations.

Figure 2. Fiscal Developments

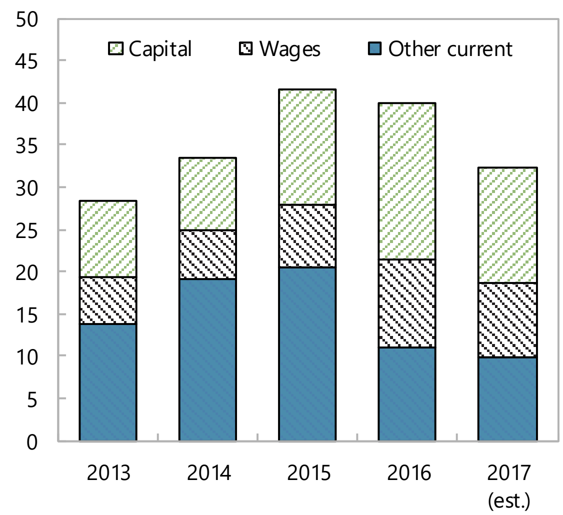
Lower hydrocarbon revenues have led to reduced fiscal revenues...

Central Government Revenues
(Percent of GDP)



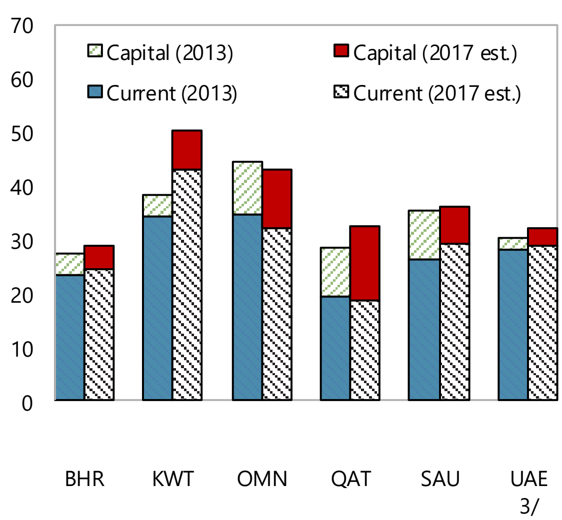
...and there has been a reduction in current expenditures.

Central Government Expenditure
(Percent of GDP)



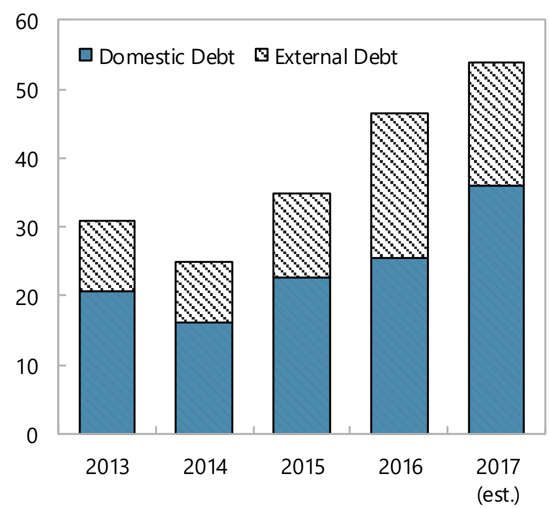
Qatar has maintained capital expenditure, despite on-going fiscal consolidation.

Government Expenditure, 2013 and 2017
(Percent of GDP)



The government has been issuing debt to help develop capital markets.

Central Government Debt
(Percent of GDP)

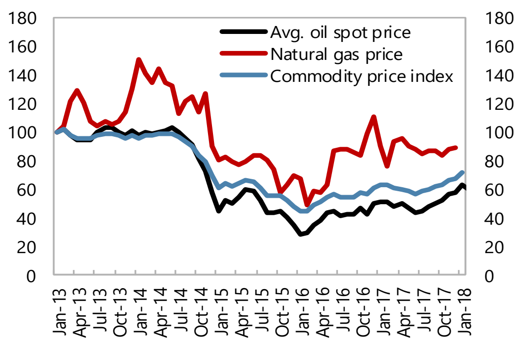


Sources: Country authorities; and IMF staff estimates.
1/ Dividends paid by Qatar Petroleum and other state-owned enterprises.
2/ About 85 percent of corporate income tax comes from Qatar Petroleum.
3/ Part of UAE capital spending is reflected in loans and equity in the official statistics, and thus is not included in this chart.

Figure 3. External Sector Developments

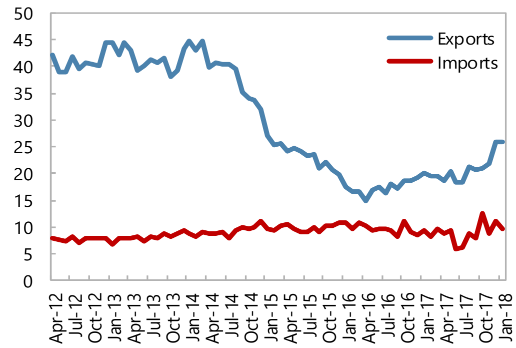
Commodity prices including oil have increased recently, gas prices though are yet to follow suit.

Commodity Price Indices
(Jan 2013=100)



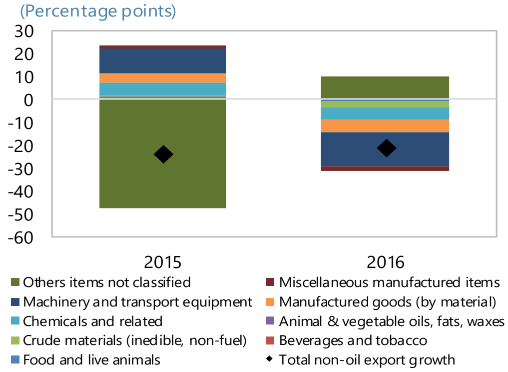
Exports have been increasing and the decline in imports is stabilizing...

Imports and Exports
(Billions of QR)



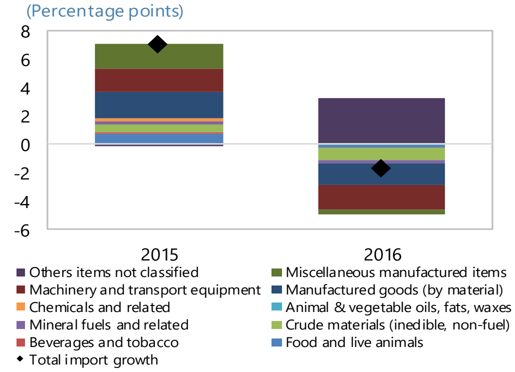
...and non-oil export growth has moderated.

Contributions to Non-oil Export Growth
(Percentage points)



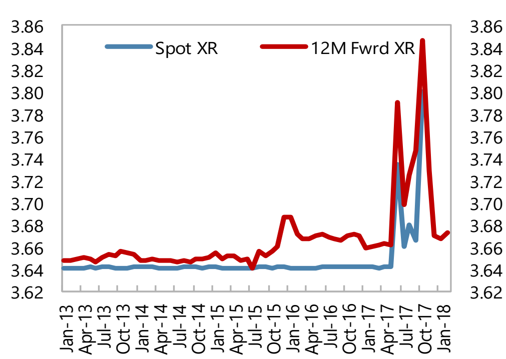
Import growth has fallen.

Contributions to Import Growth
(Percentage points)



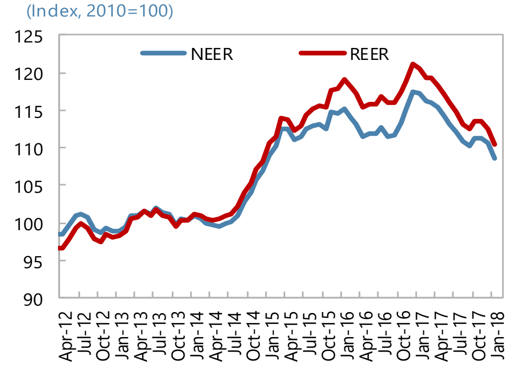
Spot and forward rates have been under pressure.

Spot and Forward Exchange Rates 1/



Real effective exchange rate has depreciated recently in line with the U.S. dollar.

Real and Nominal Effective Exchange Rates
(Index, 2010=100)

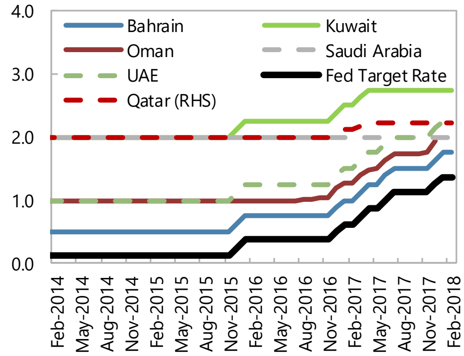


Sources: Country authorities; Bloomberg; and IMF staff calculations.
1/ Spot and forward exchange rates are off-shore rates.

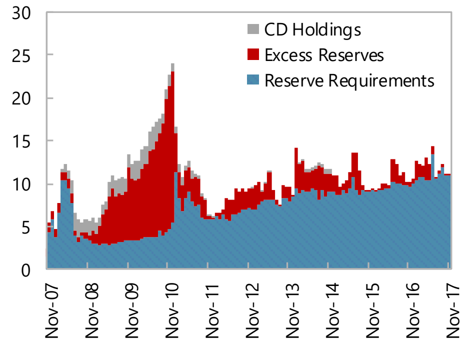
Figure 4. Financial Sector Developments

Monetary tightening and non-resident deposit withdrawals led to a decline in excess reserves and more volatile liquidity conditions.

Policy Rates
(Percent)

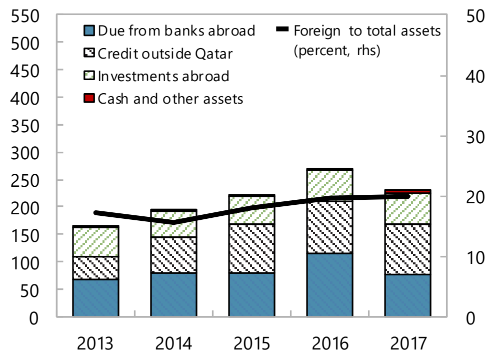


Commercial Bank Assets with Central Banks
(Billions of US dollars)

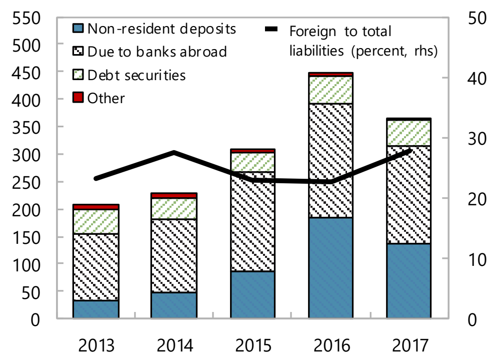


While the level and composition of banks' foreign assets and liabilities have been affected by the diplomatic rift...

Qatari Banks: Foreign Assets Composition, 2013–17
(QR billions, unless otherwise noted)

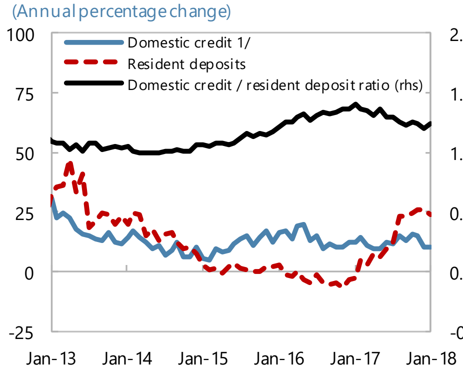


Qatari Banks: Foreign Liabilities Composition, 2013–17
(QR billions, unless otherwise noted)

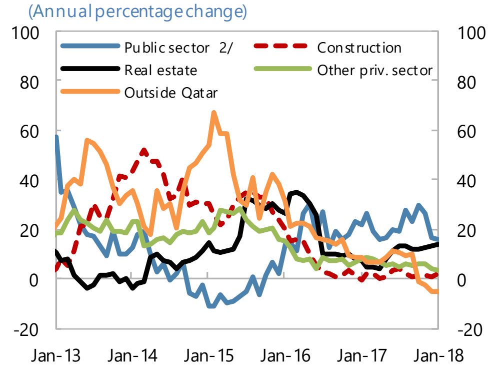


...public sector deposits and liquidity injections by the QCB have helped mitigate the effect of these outflows on domestic credit growth and the real economy.

Domestic Credit and Deposit Growth, 2013–17
(Annual percentage change)



Bank Credit Growth by Sector, 2013–17
(Annual percentage change)

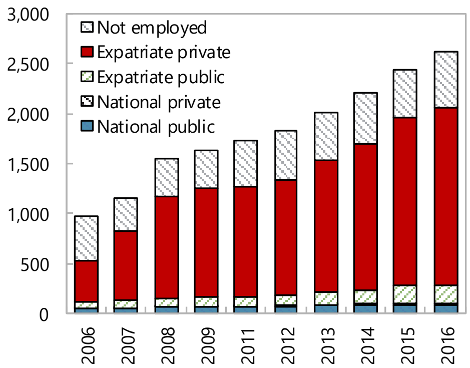


Sources: Country authorities; and Qatar Central Bank.
1/ Credit to government, government institutions, and semi-government institutions, as well as government financial securities; net of government deposits.
2/ Credit to government, government institutions, and semi-government institutions; excludes government financial securities.

Figure 5. Labor Market Indicators

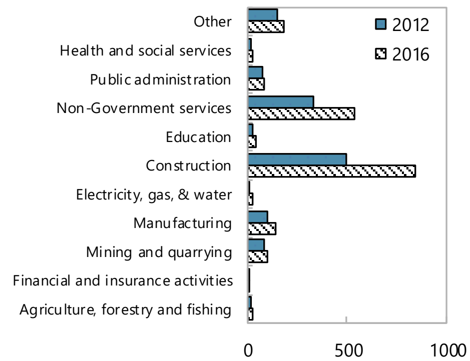
Fast population growth has been driven by inflows of expatriate workers…

Population Distribution, 2006–2016
(Thousand)



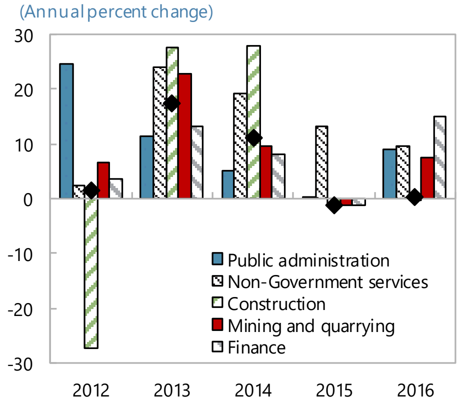
…mainly into construction and non-government service sectors.

Workers in Paid Employment, 2012 and 2016
(Thousand)



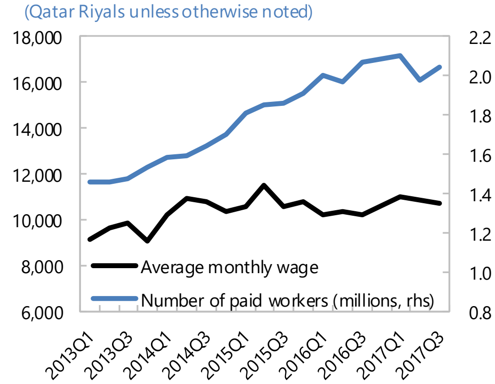
Public sector wage growth has moderated.

Real Monthly Average Wage, 2012–2016
(Annual percent change)



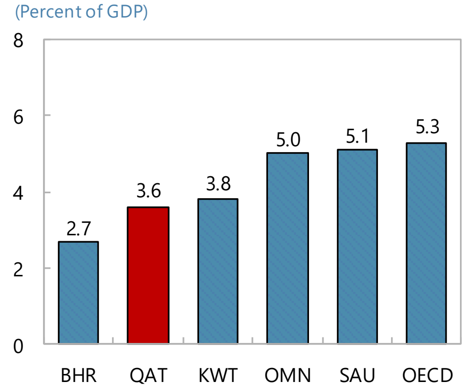
Wages and employment fell more recently, following persistent increases.

Wages and Employment, 2013Q2 –17Q2
(Qatar Riyals unless otherwise noted)



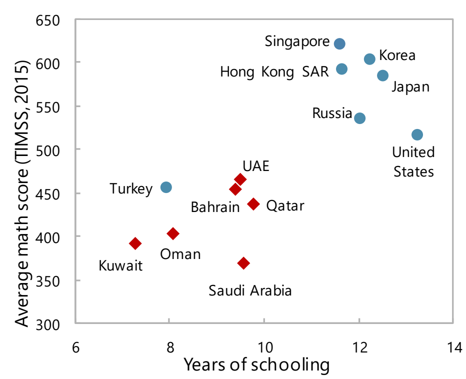
Education spending appears in line with a number of Gulf Cooperation Council countries.

Education Expenditure, Latest Value Available
(Percent of GDP)



There is room for improving education outcomes.

Length and Quality of Education, 2015
(Years of schooling and performance in math and

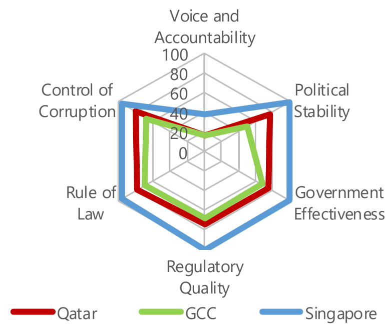


Sources: Qatar Statistics Authority's Labor Force Statistics Bulletin, 2016; Haver; and IMF staff calculations.

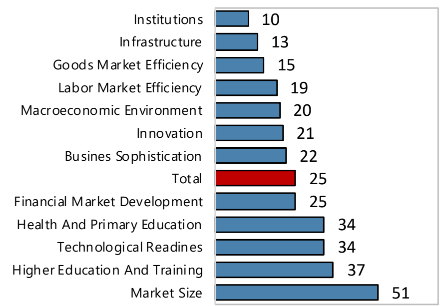
Figure 6. Business Environment and Governance Indicators

Qatar ranks favorably on a number of governance and competitiveness indicators, but there is scope for improvement, especially relative to non-GCC peers.

World Governance Indicators, 2017
(Percentile rank, 0=minimum, 100=maximum)

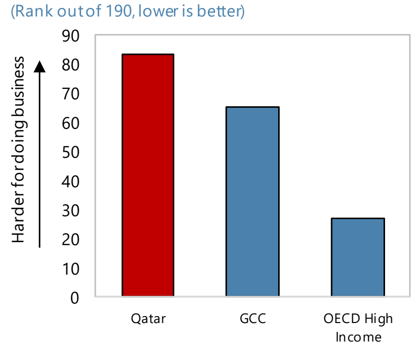


Global Competitiveness Index by Category, 2017-18
(Rank)

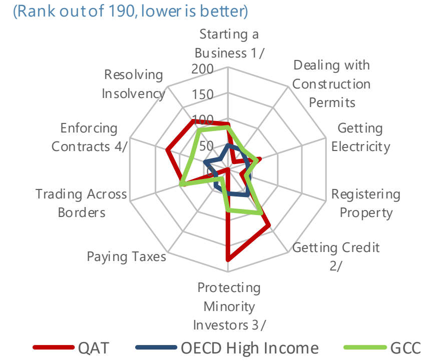


Further progress in easing business start-ups, contract enforcement, and enhancing investor protection would be particularly helpful.

World Bank Doing Business, 2018
(Rank out of 190, lower is better)

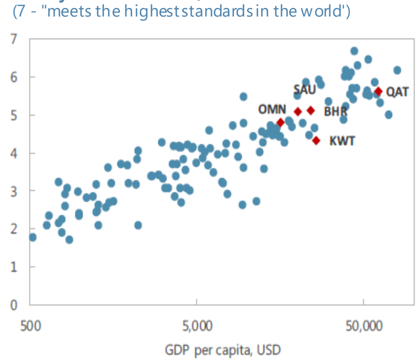


World Bank Doing Business, 2018: Details for Qatar
(Rank out of 190, lower is better)

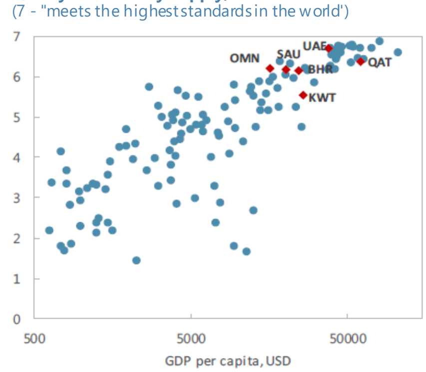


Qatar ranks favorably in terms of the quality of infrastructure and electricity supply.

Quality of Infrastructure, 2016
(7 - "meets the highest standards in the world')



Quality of Electricity Supply, 2016
(7 - "meets the highest standards in the world')



Sources: Global Competitiveness Report (2017–18); World Bank Doing Business Report (2018), World Governance Indicators (2017); and IMF staff estimates.

1/ Starting a business encompasses the procedures, time, and cost (including minimum capital requirement) required for an entrepreneur to start and operate a business.

2/ Getting credit is a combination of (i) the legal rights of borrowers and lenders that facilitate lending; and (ii) the coverage, scope, and accessibility of credit information via public credit registries and private credit bureaus. Qatar scores better in the latter but scores poorly by GCC standards in both cases.

3/ Protecting investors measures the strength of minority shareholder protection against directors' misuse of corporate assets for personal gain.

4/ Enforcing contracts measures the procedures, time, and cost involved in resolving a standardized commercial lawsuit between domestic businesses through the local first-instance court.

Table 1. Qatar: Selected Macroeconomic Indicators, 2013–23

	2013	2014	2015	2016	Est. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
Real economy (change in percent unless otherwise noted)											
Nominal GDP (billions of Qatari Riyals)	723.4	750.7	599.3	555.0	605.4	669.1	705.8	723.4	748.3	786.7	832.6
Nominal hydrocarbon GDP (billions of Qatari Riyals)	403.0	394.2	231.3	168.3	198.5	239.5	250.2	241.3	237.4	242.8	253.9
Nominal nonhydrocarbon GDP (share of overall GDP, percent)	44.3	47.5	61.4	69.7	67.2	64.2	64.5	66.6	68.3	69.1	69.5
Real GDP (2013 prices)	4.4	4.0	3.6	2.2	2.1	2.6	2.7	2.6	2.7	2.9	2.7
Hydrocarbon 1/	0.1	-0.6	-0.5	-1.0	0.2	1.0	1.2	0.8	1.0	1.1	1.1
Nonhydrocarbon	10.4	9.8	8.2	5.6	4.0	4.1	4.1	4.2	4.2	4.4	4.0
Per capita	-4.5	-6.0	-5.9	-4.8	-2.3	1.1	1.4	2.3	2.4	2.6	2.5
Deflator	1.9	-0.2	-22.9	-9.4	6.8	7.7	2.7	-0.1	0.7	2.2	3.0
CPI inflation (average)	3.2	3.4	1.8	2.7	0.4	3.9	3.5	1.9	2.0	2.2	2.2
Tradable	1.8	1.9	1.6	1.0	0.6	6.8	5.3	2.4	2.3	2.4	2.2
Non-tradable	4.4	3.9	2.0	4.1	1.2	1.4	1.9	1.5	1.7	2.0	2.3
Hydrocarbon sector											
Exports (billions of U.S. dollars) 1/	120.0	113.9	65.5	46.2	53.6	63.9	64.6	62.1	59.8	62.0	64.0
Brent crude oil price (U.S. dollars per barrel)	108.8	98.9	52.4	44.0	54.4	64.7	60.7	58.0	56.6	56.2	56.2
Crude oil production (thousands of barrels per day)	697.8	673.1	636.4	646.0	607.0	608.0	615.1	624.7	632.9	641.1	652.1
Natural Gas production (millions of tons per year)	91.8	91.3	94.0	95.1	98.0	100.9	103.0	104.1	105.0	106.0	107.0
of which LNG	78.1	77.5	79.7	77.3	77.3	78.1	78.9	79.7	80.5	81.3	82.1
Central government finances (percent GDP) 2/											
Revenue 3/	47.6	45.7	42.8	30.7	26.3	28.9	31.5	30.3	28.8	27.6	27.2
Expenditure	28.3	33.4	41.5	39.9	32.4	30.4	28.2	27.6	27.2	26.2	25.8
Current 4/	19.4	25.0	28.0	21.4	18.6	15.8	15.7	16.1	16.4	16.7	16.8
Capital	8.9	8.4	13.6	18.5	13.8	14.6	12.4	11.4	10.8	9.5	9.0
Central government fiscal balance	19.3	12.3	1.3	-9.3	-6.0	-1.4	3.4	2.8	1.6	1.4	1.5
Adjusted non-hydrocarbon primary balance (percent of non-hydrocarbon GDP) 5/	-50.2	-57.8	-57.3	-40.4	-31.4	-29.9	-25.9	-24.3	-23.4	-22.0	-21.6
Estimated general government balance 6/	22.7	15.3	5.3	-4.7	-1.6	2.8	7.5	6.8	5.5	5.1	5.0
Central government debt, gross	30.9	24.9	34.9	46.5	54.0	55.4	52.0	48.2	44.9	41.8	38.6
Monetary and financial sector (change in percent)											
Broad money	19.6	10.6	3.4	-4.6	21.3	5.5	6.1	6.7	6.0	6.4	6.7
Domestic claims on public sector 7/	10.2	-8.1	5.8	16.1	20.9	1.8	2.1	0.4	0.3	0.3	0.3
Domestic credit to private sector 8/	13.5	20.3	19.7	6.5	6.4	6.1	6.6	6.9	6.8	6.8	6.7
3-month T-bill rate (Qatar Riyal, percent, eop)	1.2	0.8	1.5	1.7	2.3	…	…	…	…	…	…
CDS (bps, eop)	…	65.3	83.2	88.0	103.2	…	…	…	…	…	…
External sector (billions of U.S. dollars unless otherwise noted)											
Exports	133.3	126.7	77.3	57.3	65.1	75.9	76.2	73.4	70.9	72.8	74.6
Imports	-31.5	-31.1	-28.5	-31.9	-34.1	-37.8	-35.7	-32.1	-30.4	-30.3	-29.6
Current account balance	60.5	49.4	13.8	-8.3	2.1	4.7	3.5	3.0	2.1	3.8	3.7
in percent GDP	30.4	24.0	8.4	-5.5	1.3	2.5	1.8	1.5	1.0	1.8	1.6
External debt (percent GDP)	49.3	48.6	73.8	110.9	88.0	86.6	82.7	79.0	75.6	71.8	67.7
Official reserves 9/	42.2	43.1	37.2	31.7	14.9	19.6	23.2	27.9	32.7	36.1	40.1
Social indicators											
Per capita GDP (2016): $59,535											
Life expectancy at birth (2015): 78.7; Population (December 2017): 2.6 million											
Memorandum items											
Local currency per U.S. dollar (period average)	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Real effective exchange rate (change in percent)	2.5	2.2	11.2	2.7	…	…	…	…	…	…	…
Credit rating (Moody's investor services)	Aa2	Aa2	Aa2	Aa2	Aa3	…	…	…	…	…	…
Population growth (percent)	9.3	10.6	10.0	7.4	4.5	1.5	1.2	0.3	0.25	0.25	0.25

Sources: Qatari authorities; and IMF staff estimates.
1/ Includes crude oil, natural gas, propane, butane, and condensates.
2/ GFSM 1986; all years presented on a calendar year basis following the change of the timing of the fiscal year from 2016.
(data from 2013 onwards reflect a full transfer of Qatar Petroleum profits to the budget).
3/ According to staff estimates, budget revenues related to hydrocarbon and non-hydrocarbon activities amounted to about 42 and 4 percent of GDP, respectively, in 2013.
4/ Includes transfers to the General Retirement and Social Insurance Authority in 2011 and 2012.
5/ Nonhydrocarbon balance of central government (excluding the portion of investment income and corporate income tax from hydrocarbon activities).
6/ Central government balance plus estimated QIA returns, excluding capital gains.
7/ Credit to the government, government institutions, and semi-government institutions, as well as holdings of government securities.
8/ Excludes financial securities.
9/ Excluding QIA assets.

Table 2. Qatar: Balance of Payments 2013–23
(Billions of U.S. dollars unless otherwise noted)

	2013	2014	2015	2016	Est. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
Current account	60.5	49.4	13.8	-8.3	2.1	4.7	3.5	3.0	2.1	3.8	3.7
In percent of GDP	30.4	24.0	8.4	-5.5	1.3	2.5	1.8	1.5	1.0	1.8	1.6
Trade balance	101.9	95.6	48.8	25.3	31.0	38.1	40.5	41.2	40.4	42.6	45.0
Exports	133.3	126.7	77.3	57.3	65.1	75.9	76.2	73.4	70.9	72.8	74.6
Hydrocarbon	120.0	113.9	65.5	46.2	53.6	63.9	64.6	62.1	59.8	62.0	64.0
Crude oil	24.7	21.4	10.2	8.7	10.1	12.0	11.4	11.4	11.6	12.5	12.9
LNG	56.9	56.6	36.1	21.4	22.3	26.8	30.8	29.2	28.2	27.6	28.3
Propane, butane	9.2	8.5	4.2	3.6	4.4	5.4	5.0	4.9	4.7	4.8	5.0
Condensates	18.8	17.7	6.6	7.9	8.4	9.8	8.0	7.6	6.5	7.9	8.2
Refined petroleum products	10.3	9.8	8.4	4.6	8.4	10.0	9.4	8.9	8.8	9.2	9.6
Non-hydrocarbon	13.4	12.8	11.7	11.1	11.5	11.9	11.6	11.3	11.0	10.8	10.6
Petrochemicals	5.5	5.2	4.3	3.6	4.6	5.6	5.3	5.1	5.1	5.3	5.6
Others	7.9	7.6	7.0	6.6	6.8	7.1	6.9	6.7	6.5	6.4	6.3
Imports	-31.5	-31.1	-28.5	-31.9	-34.1	-37.8	-35.7	-32.1	-30.4	-30.3	-29.6
Services (net)	-16.3	-19.3	-15.8	-16.4	-10.1	-13.1	-17.9	-20.9	-23.1	-22.4	-23.7
Income (net)	-10.4	-9.3	-3.6	-1.1	-2.0	-2.8	-0.7	1.8	4.9	4.7	4.6
Receipts	6.4	7.4	7.8	7.1	7.4	8.2	10.6	12.7	15.3	15.4	15.6
Payments	-16.8	-16.7	-11.4	-8.2	-9.4	-11.0	-11.3	-10.9	-10.4	-10.7	-11.0
Transfers (net)	-14.7	-17.5	-15.7	-16.2	-16.8	-17.6	-18.4	-19.2	-20.1	-21.1	-22.1
Of which: workers remittances	-11.1	-11.1	-12.0	-11.8	-12.3	-12.8	-13.4	-14.0	-14.6	-15.3	-16.0
Capital account	-4.8	-5.5	-0.7	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.2	-1.2
Financial account	-47.4	-43.6	-18.9	4.6	-17.8	0.9	1.1	2.7	3.8	0.7	1.5
Direct Investment, net	-8.9	-5.7	-3.0	-7.1	-0.7	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5
Portfolio borrowing, net	-14.3	-19.9	-16.5	6.1	12.0	16.7	17.5	19.4	23.6	28.6	34.5
Assets	-16.4	-16.7	-11.6	-10.1	13.4	18.0	19.0	20.9	25.1	30.1	36.1
Liabilities	2.1	-3.2	-4.9	16.2	-1.3	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6
Other investment (net)	-23.3	-18.3	0.7	5.6	-16.5	-16.4	-16.7	-16.9	-19.9	-28.1	-33.4
Assets	-13.4	-22.5	-19.0	-22.8	5.4	-26.4	-15.7	-11.9	-16.4	-26.1	-31.4
Liabilities	-9.9	4.2	19.6	28.4	-21.9	10.0	-1.0	-5.0	-3.5	-2.0	-2.0
Commercial banks, net	-1.7	0.0	0.0	0.0	-12.7	1.2	0.9	0.7	0.8	0.8	0.8
Other capital, net	0.7	0.3	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.8	1.1	0.4	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	9.1	1.3	-5.5	-5.6	-16.6	4.7	3.7	4.6	4.9	3.4	4.0
Change in QCB net foreign assets	-9.1	-1.3	5.5	5.6	16.6	-4.7	-3.7	-4.6	-4.9	-3.4	-4.0
Memorandum items											
Nominal GDP	198.7	206.2	164.6	152.5	166.3	183.8	193.9	198.7	205.6	216.1	228.7
Central bank reserves	42.2	43.1	37.2	31.7	14.9	19.6	23.2	27.9	32.7	36.1	40.1
In months of next year's imports of goods and services	7.8	8.6	7.0	5.7	2.5	3.3	4.0	4.8	5.5	6.1	6.1
Real goods and services exports (percent change)	1.3	0.4	-1.4	2.1	5.2	-1.8	-1.8	-0.3	0.4	2.1	-0.5
Real goods and services imports (percent change)	8.7	6.4	-9.2	11.2	-0.9	1.5	-3.9	-5.0	-2.0	0.4	-2.1

Sources: Qatar Central Bank; and IMF staff estimates and projections.

Table 3a. Qatar: Summary of Central Government Finance, 2013–23 1/

(Billions of Qatari Riyals unless otherwise noted)

	2013	2014	2015	2016	Est. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
Revenue 2/	344.1	343.0	256.5	170.2	159.4	193.5	222.6	219.4	215.8	217.2	226.7
Oil	105.0	100.7	60.3	29.4	34.0	40.4	38.5	38.6	39.4	42.4	43.7
LNG-related	87.8	73.9	42.6	11.6	14.8	30.1	45.4	39.6	35.7	33.6	36.2
Investment income from public enterprises	89.0	108.5	102.3	64.2	49.3	55.8	64.9	66.2	65.0	64.1	66.9
Corporate tax revenue	49.2	46.8	38.2	31.5	26.4	29.3	33.1	34.1	34.3	34.6	36.3
Other revenue	13.1	13.0	13.1	33.5	34.9	37.9	40.9	40.9	41.5	42.5	43.7
Expenditure	204.7	250.7	248.8	221.7	195.9	203.2	198.9	199.4	203.8	206.0	214.6
Expense	140.0	187.8	167.6	119.0	112.6	105.8	111.1	116.6	123.0	131.0	139.6
Compensation of employees	40.1	44.1	45.0	57.2	52.6	52.2	53.8	54.6	55.4	57.0	59.3
Goods and services	15.3	17.7	18.6	13.9	14.1	14.3	14.5	14.8	15.0	15.2	15.4
Interest payments	9.2	8.8	8.8	8.2	8.2	10.7	12.0	11.9	11.4	11.0	10.8
Foreign grants	2.8	4.7	4.7	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Other expense	72.6	112.5	90.6	38.5	36.4	27.3	29.6	34.2	40.1	46.5	52.7
Net acquisition of nonfinancial assets	64.6	62.9	81.3	102.7	83.3	97.4	87.8	82.8	80.8	75.0	75.0
Gross operating balance	204.0	155.2	88.9	51.2	46.8	87.7	111.6	102.7	92.8	86.1	87.2
Net lending (+)/borrowing (-)	139.4	92.3	7.6	-51.5	-36.5	-9.7	23.8	19.9	12.0	11.1	12.2
Adjusted nonhydrocarbon primary fiscal balance 3/	-161.0	-206.2	-210.9	-156.2	-127.8	-128.2	-118.2	-117.2	-119.8	-119.4	-124.9
Total government debt	223.4	187.0	209.3	258.0	326.7	370.4	366.7	348.5	335.7	328.5	321.2
o/w total net debt 4/	122.5	86.2	136.0	198.6	232.2	260.9	237.2	211.0	193.3	181.0	163.7
o/w external debt	74.3	67.0	73.4	116.2	108.9	145.3	141.7	123.4	110.7	103.4	96.1
o/w domestic debt	149.1	120.0	135.9	141.8	217.8	225.1	225.1	225.1	225.1	225.1	225.1
o/w net domestic debt 4/	48.2	19.2	62.6	82.4	123.3	115.6	95.6	87.6	82.6	77.6	67.6
External debt service/total revenue (percent)	4.7	2.0	7.7	1.8	6.5	5.3	3.4	14.6	14.4	4.7	4.4
Memorandum items											
Nominal GDP	723.4	750.7	599.3	555.0	605.4	669.1	705.8	723.4	748.3	786.7	832.6
Estimated general government balance 5/	164.4	114.6	31.9	-26.2	-10.0	18.8	53.2	49.3	41.1	40.4	41.7
Estimated financial net worth of general government 6/	622.5	792.4	780.8	1,091.9	1,055.1	1,043.9	1,062.9	1,080.7	1,303.7	1,251.5	1,407.3
Estimated total hydrocarbon revenue 7/	330.8	329.8	243.2	136.6	124.3	155.5	181.6	178.3	174.2	174.5	182.9

Sources: Ministry of Economy and Finance; and IMF staff estimates and projections.

1/ GFSM 2001 based on staff estimates; presented on a calendar year basis. In 2015, budget will be based on a 9-month period (April-December).

2/ According to staff estimates, budget revenues related to hydrocarbon and non-hydrocarbon activities amounted to about 42 and 4 percent privatization receipts of Industries Qatar, shares of which were formerly owned by Qatar Petroleum.

3/ Nonhydrocarbon balance of central government (excluding the portion of investment income and corporate income tax from hydrocarbon activities).

4/ Excludes government deposits with resident banks.

5/ Central government balance plus estimated QIA investment income, excluding capital gains.

6/ Net debt of central government plus the estimated stock of QIA assets.

7/ Include corporate income taxes and investment income from hydrocarbon activities.

Table 3b. Qatar: Summary of Central Government Finance, 2013–23 1/

(Percent of GDP unless otherwise noted)

	2013	2014	2015	2016	Est. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
Revenue 2/	47.6	45.7	42.8	30.7	26.3	28.9	31.5	30.3	28.8	27.6	27.2
Oil	14.5	13.4	10.1	5.3	5.6	6.0	5.4	5.3	5.3	5.4	5.2
LNG-related royalties	12.1	9.8	7.1	2.1	2.4	4.5	6.4	5.5	4.8	4.3	4.3
Investment income from public enterprises	12.3	14.5	17.1	11.6	8.1	8.3	9.2	9.2	8.7	8.1	8.0
Corporate tax revenue	6.8	6.2	6.4	5.7	4.4	4.4	4.7	4.7	4.6	4.4	4.4
Other revenue	1.8	1.7	2.2	6.0	5.8	5.7	5.8	5.7	5.5	5.4	5.2
Expenditure	28.3	33.4	41.5	39.9	32.4	30.4	28.2	27.6	27.2	26.2	25.8
Expense	19.4	25.0	28.0	21.4	18.6	15.8	15.7	16.1	16.4	16.7	16.8
Compensation of employees	5.5	5.9	7.5	10.3	8.7	7.8	7.6	7.5	7.4	7.3	7.1
Goods and services	2.1	2.4	3.1	2.5	2.3	2.1	2.1	2.0	2.0	1.9	1.9
Interest payments	1.3	1.2	1.5	1.5	1.4	1.6	1.7	1.6	1.5	1.4	1.3
Foreign grants	0.4	0.6	0.8	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Other expense	10.0	15.0	15.1	6.9	6.0	4.1	4.2	4.7	5.4	5.9	6.3
Net acquisition of nonfinancial assets	8.9	8.4	13.6	18.5	13.8	14.6	12.4	11.4	10.8	9.5	9.0
Gross operating balance	28.2	20.7	14.8	9.2	7.7	13.1	15.8	14.2	12.4	11.0	10.5
Net lending (+)/borrowing (-)	19.3	12.3	1.3	-9.3	-6.0	-1.4	3.4	2.8	1.6	1.4	1.5
Nonhydrocarbon fiscal balance	-23.5	-28.6	-36.7	-29.6	-22.5	-20.8	-18.4	-17.8	-17.5	-16.6	-16.3
Adjusted nonhydrocarbon primary fiscal balance, in pct of nonhydrocarbon GDP 3/	-50.2	-57.8	-57.3	-40.4	-31.4	-29.9	-25.9	-24.3	-23.4	-22.0	-21.6
Memorandum items:											
Total government debt	30.9	24.9	34.9	46.5	54.0	55.4	52.0	48.2	44.9	41.8	38.6
o/w total net debt 4/	16.9	11.5	22.7	35.8	38.4	39.0	33.6	29.2	25.8	23.0	19.7
o/w external debt	10.3	8.9	12.2	20.9	18.0	21.7	20.1	17.1	14.8	13.1	11.5
o/w domestic debt	20.6	16.0	22.7	25.6	36.0	33.6	31.9	31.1	30.1	28.6	27.0
o/w net domestic debt 4/	6.7	2.6	10.4	14.9	20.4	17.3	13.5	12.1	11.0	9.9	8.1
Estimated general government balance 5/	22.7	15.3	5.3	-4.7	-1.6	2.8	7.5	6.8	5.5	5.1	5.0
Estimated financial net worth of general government 6/	86.1	105.6	130.3	196.7	174.3	156.0	150.6	149.4	174.2	159.1	169.0
Estimated total hydrocarbon revenue 7/	45.7	43.9	40.6	24.6	20.5	23.2	25.7	24.7	23.3	22.2	22.0

Sources: Ministry of Economy and Finance; and IMF staff estimates and projections.
1/ GFSM 2001 based on staff estimates; presented on a calendar year basis. In 2015, budget will be based on a 9-month period (April-December).
2/ According to staff estimates, budget revenues related to hydrocarbon and non-hydrocarbon activities amounted to about 42 and 4 percent privatization receipts of Industries Qatar, shares of which were formerly owned by Qatar Petroleum.
3/ Nonhydrocarbon balance of central government (excluding the portion of investment income and corporate income tax from hydrocarbon activities).
4/ Excludes government deposits with resident banks.
5/ Central government balance plus estimated QIA investment income, excluding capital gains.
6/ Net debt of central government plus the estimated stock of QIA assets.
7/ Include corporate income taxes and investment income from hydrocarbon activities.

Table 4. Qatar: Vulnerability Indicators, 2013–17
(Percent, unless otherwise noted)

	2013	2014	2015	2016	Est. 2017
External solvency indicators					
REER (change in percent, 2010=100)	2.5	2.2	11.2	2.7	....
Total debt (billion US$, including commercial banks)	97.9	100.2	121.6	169.1	146.4
Of which: LNG-related	23.1	5.5	5.5	5.5	4.7
Total debt (percent of GDP)	49.3	48.6	73.8	110.9	88.0
Public sector solvency indicators					
Government gross domestic debt/GDP	20.6	16.0	22.7	25.6	36.0
Government net domestic debt/GDP 1/	6.7	2.6	10.4	14.9	20.4
Government external debt/GDP	10.3	8.9	12.2	20.9	18.0
Interest payments/total revenue	2.7	2.6	3.4	4.8	5.1
External liquidity indicators (billion US$)					
Central bank net reserves	41.8	42.7	36.9	31.4	14.5
In months of imports	7.8	8.6	7.0	5.7	2.5
Commercial banks net foreign assets (US$b)	-12.5	-8.5	-23.9	-47.7	-35.0
Foreign assets (US$b)	44.9	54.0	61.2	75.1	64.4
Foreign liabilities (US$b)	57.3	62.5	85.2	122.8	99.4
Hydrocarbon exports/total exports	90.0	89.9	84.8	80.7	82.3
Financial sector indicators					
Foreign currency deposits/total deposits	31.7	31.7	29.8	25.6	37.3
Net domestic credit (percent change)	12.1	9.5	11.9	3.7	6.6
Private sector credit (percent change)	13.5	20.3	19.7	6.5	6.4
Net domestic credit/GDP	65.9	69.5	97.4	109.1	106.5
Private credit/total assets of banks	32.2	35.1	38.0	35.6	35.1
Market assessment/financial market indicators					
Stock market index (end of period)	10378.6	10379.6	12285.8	10313.7	7714.3
Moody's investor services 2/	Aa2	Aa2	Aa2	Aa2	Aa3
Standard and Poor's 2/	AA	AA	AA	AA	AA-

Sources: Qatari authorities; Bloomberg; and IMF staff estimates and projections.
1/ Net of government deposits with resident banks.
2/ Long-term foreign currency rating.

Table 5. Qatar: Financial Soundness Indicators, 2009–17Q3

(Percent unless otherwise noted)

	2009	2010	2011	2012	2013	2014	2015	2016	Q3 2017
Capital adequacy									
Regulatory Tier 1 capital to risk-weighted assets 1/	15.0	15.0	19.9	18.2	15.3	15.8	15.2	15.7	15.4
Regulatory Tier 1 capital to total assets	11.5	11.1	12.6	12.8	12.5	12.0	11.3	10.7	...
Regulatory capital to risk weighted assets 1/	16.1	16.1	20.6	18.9	16.0	16.3	15.6	16.1	15.6
Asset quality									
Nonperforming loans to total loans	1.7	2.0	1.7	1.7	1.9	1.7	1.6	1.3	1.5
Nonperforming loans to capital	1.2	1.3	1.0	1.7	1.9	2.0	1.9	1.7	...
Bank provisions to nonperforming loans 2/	84.5	85.1	87.2	97.5	96.8	99.1	100.1	79.9	85.0
Bank provisions to total loans	1.4	1.7	1.5	1.7	1.9	1.7	1.6	1.3	...
Foreign assets to total assets	1.3	1.3	1.2	1.2	1.3	1.2	1.1	0.9	...
Earnings and profitability									
Return on assets	2.6	2.6	2.7	2.4	2.1	2.1	2.0	1.7	1.6
Return on equity	19.3	19.9	18.6	17.7	16.5	16.5	16.2	14.5	14.0
Net interest to gross income	40.6	48.2	53.0	71.4	74.6	72.4	74.6	75.1	77.5
Net Interest to average total assets	2.7	2.9	2.8	2.6	2.5	2.3	2.2	1.9	...
Non-interest expenses to gross income	26.5	24.6	28.2	25.4	26.5	26.9	28.0	28.8	26.9
Wages and salaries to other non-interest expenses	30.8	33.5	31.9	48.5	47.6	48.0	49.5	49.8	...
Liquidity									
Liquid assets to total assets	36.3	38.5	36.3	38.1	33.6	30.8	28.5	29.6	27.3
Liquid assets to short-term liabilities	47.0	50.7	47.2	58.5	50.9	50.9	47.1	54.7	55.9
Domestic credit-to-deposits ratio	112.0	120.0	109.6	114.3	103.5	106.1	117.2	...	...
Loans as a percentage of customers deposits	109.6	102.5	111.0	109.0	103.1	105.9	112.4	113.7	...
Other									
Private sector loans (in percent total loans)	72.4	67.0	62.8	56.6	57.8	62.9	67.2	68.8	...
Foreign currency assets to liabilities	98.7	97.2	114.6	109.1	76.4	79.7	81.0	115.6	...

Sources: Qatar Central Bank, and Haver Analytics.

1/ In 2014 onwards, Basel III capital adequacy is applied for national banks only. Basel II is applied in earlier years.

2/ In 2014 onwards, bank provisions to nonperforming loans include provisions for some performing loans under the special category.

Table 6. Qatar: Monetary Survey, 2013–19
(Billions of Qatari Riyals unless otherwise noted)

	2013	2014	2015	2016	Est. 2017	Proj. 2018	Proj. 2019
Total							
Net foreign assets	106.6	124.6	47.1	-59.4	-74.5	-62.0	-51.9
Net domestic assets	349.1	379.4	474.3	557.0	677.8	698.8	727.4
Claims on government (net)	60.7	72.8	132.2	197.3	237.6	222.6	202.6
Domestic credit	476.5	521.8	583.9	605.3	645.0	683.3	727.4
Other items (net)	-188.1	-215.2	-241.8	-245.6	-204.8	-207.1	-202.7
Broad Money	455.7	504.0	521.4	497.5	603.3	636.8	675.4
Money	105.9	124.3	126.9	128.3	123.1	129.9	137.8
Quasi Money	349.8	379.8	394.5	369.2	480.2	506.9	537.6
Qatar Central Bank							
Net foreign assets	152.0	155.5	134.2	114.2	52.9	69.9	83.3
Foreign assets	153.4	156.8	135.5	115.5	54.3	71.2	84.6
Foreign liabilities	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Claims on commercial banks	59.2	55.9	56.0	44.6	110.5	109.5	108.5
Net claims on government	-52.8	-34.6	-7.9	-1.3	-0.3	-15.3	-35.3
Claims on government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government deposits	52.8	34.6	7.9	1.3	0.3	15.3	35.3
Reserve Money	44.0	54.2	48.7	55.0	62.8	61.6	62.0
Currency issued	12.3	14.1	15.0	16.2	16.5	16.2	16.6
Deposits of local banks	31.7	40.1	33.7	38.8	46.2	45.5	45.5
Other items (net)	114.3	122.5	133.6	102.5	100.3	102.4	94.4
Other Depository Corporations							
Net foreign assets	-45.4	-30.9	-87.1	-173.6	-127.4	-131.9	-135.2
Foreign assets	163.3	196.5	222.9	273.2	234.4	242.6	248.7
Foreign liabilities	208.7	227.4	310.0	446.8	361.9	374.5	383.9
Claims on Central Bank	34.5	43.6	37.4	42.9	50.4	50.2	50.0
Currency	3.1	3.8	4.0	4.2	4.9	4.7	4.5
Reserve Deposits	31.4	39.9	33.5	38.6	45.5	45.5	45.5
Claims on public sector	365.0	335.5	354.9	411.9	498.1	507.3	517.9
Credit to government	56.5	64.7	76.8	138.7	…	…	…
Government financial securities	125.2	102.0	116.6	118.0	…	…	…
Credit to public enterprises	183.2	168.8	161.5	155.2	166.0	175.2	185.8
Credit to private sector	293.3	353.0	422.5	450.1	479.0	508.1	541.6
Deposits	514.8	553.0	563.6	543.7	685.9	706.5	730.2
Private sector	284.7	324.8	354.5	357.7	370.5	391.1	414.8
Public enterprises	161.8	168.9	155.8	127.9	221.2	221.2	221.2
Government	68.3	59.3	53.3	58.1	94.2	94.2	94.2
Liabilities to the central bank	4.6	6.7	7.0	9.1	34.4	33.4	32.4
Other items, net	128.1	141.6	157.0	178.5	179.8	193.9	211.8
Memorandum items							
Broad money growth (M2)	19.6	10.6	3.4	-4.6	21.3	5.5	6.1
Velocity (M2 to non-oil GDP)	0.7	0.7	0.7	0.8	0.7	0.7	0.7
Net foreign assets growth	360.2	16.9	-62.2	-226.1	-25.4	16.8	16.3
Net domestic assets growth	-2.5	8.7	25.0	17.4	21.7	3.1	4.1
Domestic claims on public sector growth	10.2	-8.1	5.8	16.1	20.9	1.8	2.1
Domestic claims on private sector growth	13.5	20.3	19.7	6.5	6.4	6.1	6.6
3-month T-bill rate (Qatar Riyal, percent, eop)	1.2	0.8	1.5	1.7	2.3	…	…
10-year bond yield (USD, percent, eop)							
CDS (bps, eop)	…	65.3	83.2	88.0	103.2	…	…

Sources: Qatar Central Bank; Haver Analytics; and IMF staff estimates and projections.

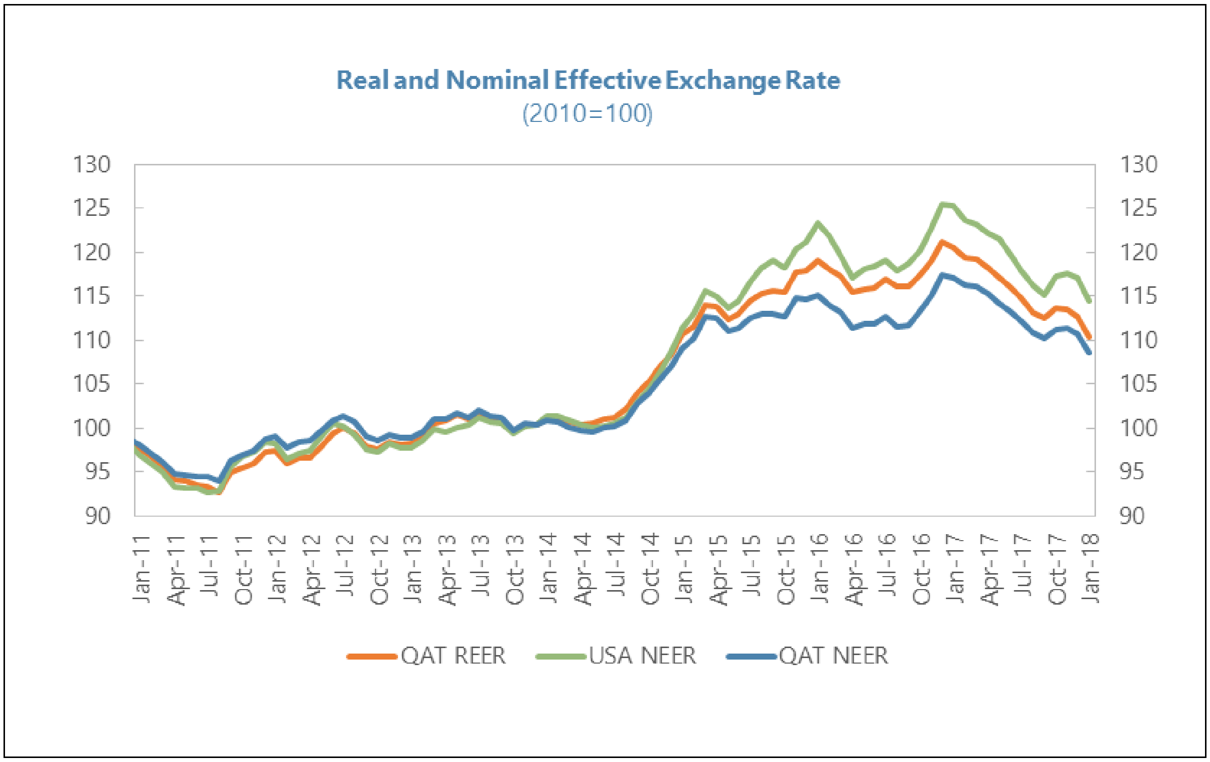
Annex I. Status of Staff Recommendations

Implement gradual fiscal consolidation	Further expenditure restraint took place in 2017, culminating in improved underlying fiscal position. The 2018 budget envisages further fiscal consolidation
Further reform energy subsidies	Fuel prices are being adjusted in line with movements in international oil prices. The utility companies will continue to focus on cost recovery.
Introduce excises and VAT and improve tax administration	The authorities plan to introduce a VAT and excises in the second half of 2018.
Improve public financial management	Enhanced capacity and technical assistance could be required in moving to a medium-term budget framework and performance-based budgeting system.
Put in place a comprehensive asset-liability management framework	The authorities have made significant progress, with asset-liability management framework guided by the risk-return trade-off between the cost of external borrowing versus the return on accumulated assets, and the financial sector's liquidity position.
Further enhance business environment to speed up diversification (contract enforcement, business climate, privatization, competition, insolvency regime)	Authorities are advancing a structural reform agenda to improve the business environment. Consideration is being given to introducing special economic zones. Work is on-going on allowing majority foreign ownership of companies.
Labor market reforms	Qatar recently announced a visa-entry program for 80 nationalities to stimulate tourism, created a new permanent-resident status for foreigners and has approved a new law to protect domestic staff.
Deepen domestic financial markets	Developing domestic financial markets, ensuring financial inclusion and fostering financial innovation are a cornerstone of the Second Strategic Plan for the Financial Sector
Develop a more active liquidity forecasting framework	Emphasis has been placed on greater coordination and information sharing between the central government, QCB and QIA.
Further strengthen AML/CFT framework	The authorities are increasingly focusing on enhancing AML/CFT effectiveness. They are putting in place a comprehensive mechanism to implement targeted financial sanctions and managing risks posed by non-profit organizations.
Further improve macroeconomic statistics	Progress is being made in conducting a quarterly investment survey, compiling fiscal data according to the GFSM 2001, and subscribing to the SDSS.

Annex II. External Stability Assessment

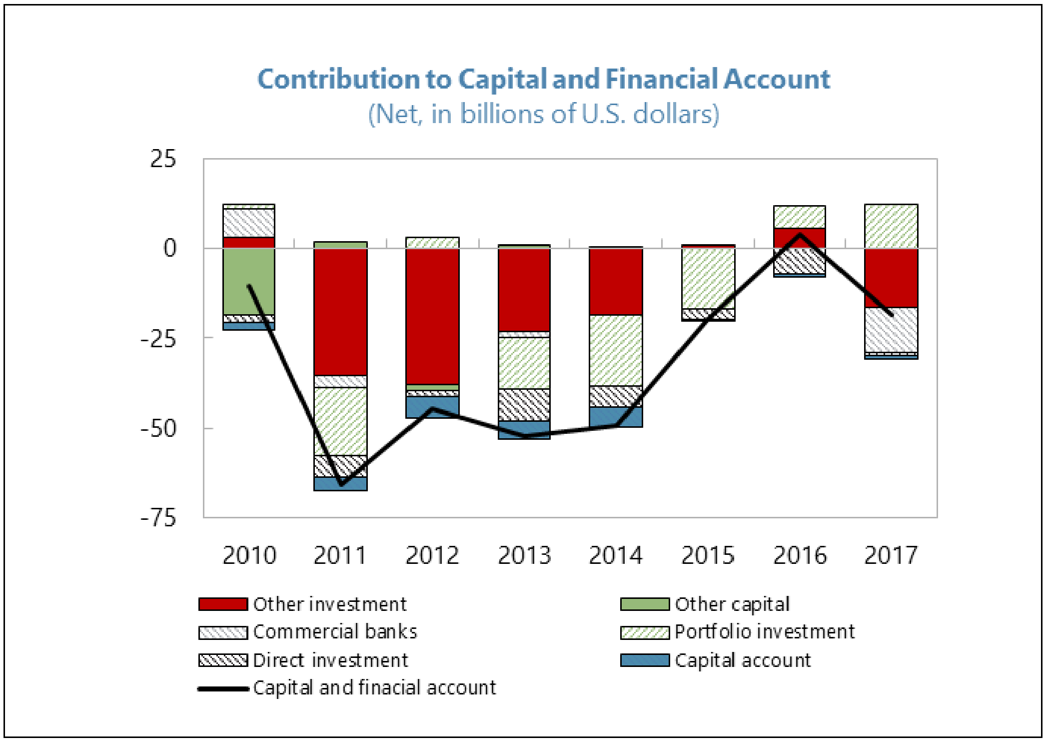
Qatar's current account turned positive in 2017 due to a recovery in hydrocarbon prices. The Permanent Income Hypothesis (PIH) model and the current account model approach indicate that the external position is moderately weaker than the level implied by fundamentals and medium-term policy settings because the present level of saving of exhaustible hydrocarbon wealth is below the estimated level that would achieve intergenerational equity. However, sustaining the baseline fiscal plans over the longer term would close the estimated current account gap.

1. Qatar's real effective exchange rate has recently been depreciating broadly in line with the U.S. dollar. The Riyal depreciated by 7 percent in 2017. It has also depreciated by 9 percent so far this year. Heavy reliance on hydrocarbon exports, elastic supply of expatriate labor, and limited import substitution policies limit the impact of the exchange rate on the current account.



2. Qatar's current account position strengthened in 2017, primarily due to lower imports. The current account balance increased to a surplus of 1.3 percent of GDP in 2017 (from a deficit of 5.5 percent in 2016). A major reason for an improvement in the current account position in 2017 was the decline in goods imports by 8 percent in 2017 compared to 2016. Export of services is projected to have fallen during the second half of 2017, reflecting lower tourist arrivals from the GCC countries.

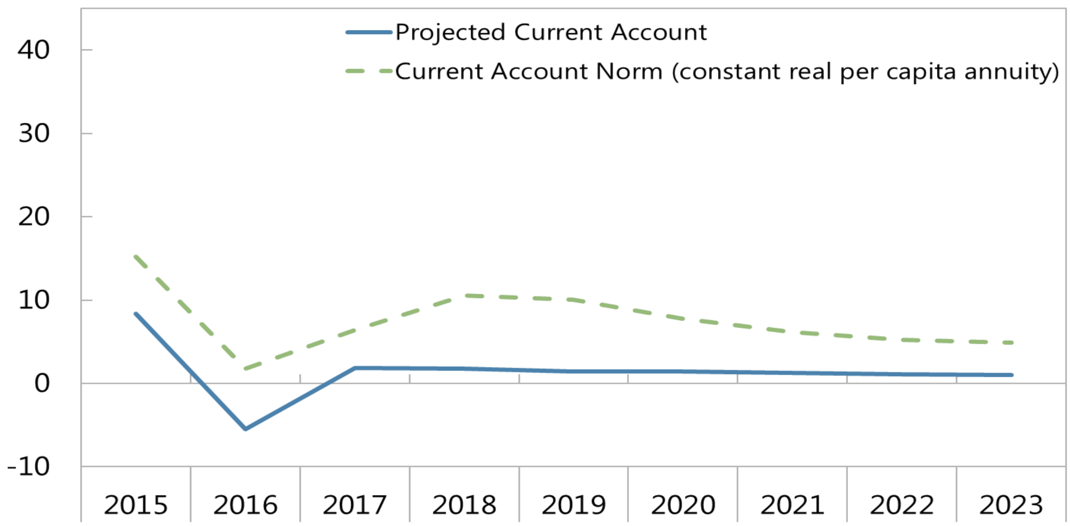
3. The capital account deteriorated due to a drop in foreign financing. The capital and financial account have widened principally on account of commercial banks' and other investment flows. However, portfolio investment was in a sizable surplus.



4. The PIH model approach indicates that the current account balance is weaker than the level consistent with adequate saving of the country's exhaustible hydrocarbon wealth. The preferred method for the assessment of the current account position in Qatar—a major hydrocarbon exporting country—is the external sustainability (ES) approach because it is based on the PIH model and hence reflects the goal of achieving intergenerational equity in a country with nonrenewable resources.[1] The ES approach calculates the current account required for the net present value (NPV) of hydrocarbon and investment income to equal the NPV of imports net of non-hydrocarbon exports. A current account gap would entail suboptimal saving of hydrocarbon revenues. For 2017, the gap with the current account required to provide a constant real income per capita is estimated at about 4.3 percentage points of GDP, and narrows to around 3.4 percentage points over the medium term. Results indicate that even though Qatar's external position will remain a surplus in the medium term, it would be weaker than the level needed to preserve intergenerational equity, indicating the importance of sustained fiscal consolidation

[1] See Bems, R., and I. de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil-Exporting Countries," IMF Working Paper 09/281.

External Sustainability's Current Account Norms vs. Projection, 2015–23
(Percent of GDP)



Source: IMF staff estimates.

5. Central bank foreign exchange reserves have declined significantly on account of the liquidity support to banks from the QCB following the diplomatic rift. Reserves at the QCB have declined from US$31 billion in 2016 to US$15 billion in 2017. In 2017, foreign reserves as a percentage of broad money were 9 percent and were three months of imports of goods and services. QCB reserves only cover 23 percent of the Fund's reserve metric, but the large stock of assets at the Qatar Investment Authority (QIA) provides an additional buffer with a large stock of assets estimated to be about US$300 billion in 2017. In early 2018, QCB reserves have increased to US$18 billion at end-February.

Foreign Reserve Adequacy Assessment (Billions of US dollars)

	2011	2012	2013	2014	2015	2016	2017
External short-term debt	14	9	10	10	12	17	15
Other liabilities (portfolio liabs + other invt liabs - short-term debt)		109	108	106	111	149	166
Broad money	85	105	125	138	143	137	166
Exports of goods and services	122	143	145	140	92	72	87
Actual foreign reserves	16	33	42	43	37	31	15
QIA assets (estimates)	117	154	206	241	253	355	337
ARA metric	25	49	52	52	49	56	63

	2011	2012	2013	2014	2015	2016	2017
Foreign reserves as a % of the ARA metric	66	66	81	82	75	56	23
Foreign reserves in percent of GDP	9.8	17.5	21.0	20.7	22.4	20.6	8.7
Foreign reserves in percent of broad money	19.2	31.3	33.3	30.8	25.7	23.0	8.8
Foreign reserves in months of imports of goods and services	3.6	6.7	7.8	8.6	7.0	5.7	2.5
Foreign reserves and QIA assets as a % of the ARA metric	536	378	481	544	587	693	558
Foreign reserves and QIA assets in percent of GDP	79	100	125	138	176	253	211
Foreign reserves and QIA assets in percent of broad money	156	179	198	205	202	282	212
Foreign reserves and QIA assets in months of imports of goods and services	29	38	46	57	55	70	60

6. Estimates based on the macro-balance approach using the EBA-Oil model show that the current account is broadly in line with its optimal level. The macro-balance model builds on the External Balance Assessment-Lite (EBA-Lite) approach which provides regression analysis for a large cross-section of countries to predict the equilibrium current account consistent with a range of structural and policy factors, and employs the impact of changes in these factors on the norm. Norms are the estimated levels of the current account based on underlying fundamentals, while gaps are the deviations of observed values from the norms. For Qatar, the EBA Lite model gives a current account norm of a surplus of 13 percent of GDP—which is too high—and a current account gap of 11.7 percent of GDP, but the residuals are very large and the application of this approach to Qatar is potentially misleading. The high current account gap is primarily explained by the residual and not by the policy gap, reflecting a poor fit of the EBA-Lite for Qatar. An alternative method, the EBA-Oil model is therefore used, which provides a better fit.[2] In 2017, this alternative approach suggests a current account norm of a surplus of 2.2 percent of GDP, compared to the actual surplus of 1.3 percent, suggesting current account gap of about 1 percent of GDP. Though the magnitude of the results depends on the approach used, results should be interpreted with caution, keeping in view the large residuals.

Qatar: Macro-balance Approach, 201			
EBA-Lite			
CA-Actual	1.3%	CA-Fitted	12.4%
CA-Norm	13.0%	Residual	-11.1%
CA-Gap	-11.7%	Policy gap	-0.6%
EBA-Oil			
CA-Actual	1.3%	CA-Fitted	-6.9%
CA-Norm	2.2%	Residual	8.2%
CA-Gap	-0.9%	Policy gap	-9.1%

2. An adapted version of the EBA-Lite which takes account of specific characteristics of oil-dependent oil exporting countries. See Behar, A., and Fouejieu, A., 2016, "External Adjustment in Oil Exporters: The Role of Fiscal Policy and the Exchange Rate," IMF Working Paper 16/107.

Annex III. Risk Assessment Matrix[1]

Nature/source of main risks	Expected impact on the economy if risk is realized	Policy Response
	Medium to High	
Lower energy prices, driven by weakening Organization of the Petroleum Exporting Countries(OPEC)/Russia cartel cohesion and/or recovery of oil production in the African continent (Low)	Lower oil prices would weaken fiscal and external positions. Government financing requirements would increase. In the event of higher domestic financing, there could be lower credit growth to the private sector, with an adverse impact for non-oil growth. Reduced oil prices could affect banking system liquidity and credit growth. A further softening of the real estate market combined with volatility of equity markets could impact banks' asset quality and potentially non-oil growth.	The availability of fiscal space allows for gradual fiscal adjustment and to absorb temporary oil price changes. Though, additional fiscal measures would be appropriate in response to permanently lower oil prices. A successful diversification program would help mitigate the impact of oil price volatility. The authorities should ensure adequate banking system liquidity. This should be complemented with efforts to enhance central bank liquidity management. The banking sector is in a position to withstand adverse shocks.
	Medium	
Intensification of the risks of fragmentation/security dislocation in parts of the Middle East, Africa Asia, and Europe, leading to socio-economic disruptions (High)	Dislocations could cause a spike in hydrocarbon prices, which would improve fiscal and external balances, but could be more than offset by the impact of weaker investor confidence and possible supply, trade and capital flows disruptions.	Maintain prudent fiscal and liquidity policies.
	Medium	
Potential reversal of fiscal reforms or limited fiscal adjustment going forward (Low)	Lower pace of underlying fiscal adjustment. Larger financing needs and increased dependency on external and domestic financing.	Correct potential slippages and implement gradual fiscal consolidation underpinned by medium term fiscal framework.
	Medium	
Deepening in the Diplomatic Rift in the Gulf region and slowdown in GCC integration.	Investor confidence across the GCC could be affected, with impact for capital flows and financing costs. A broader erosion of confidence, reduced investment and growth could emerge.	Prudent macroeconomic policies combined with enhanced surveillance of financial system would be important.
	Low	
Structurally weak growth in key advanced economies (High)	This would lower Qatar's fiscal and external surpluses. The spillover channels to the non-oil sector would be similar to those in the oil price drop scenario.	Policymakers should further intensify diversification efforts to partially offset these potential negative spillovers.
	Medium	
Tighter global financial conditions associated with continued Fed monetary policy normalization (High)	The government will have to access international markets at higher yields. Individual banks reliant on wholesale funding could face liquidity pressures and banks' profit margin could shrink.	In addition to strong macroeconomic fundamentals, large financial cushions and a policy framework are in place to mitigate the impact.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of the IMF staff). The relatively likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex IV. Public Sector and External Debt Sustainability Analyses

Figure 1. Qatar Central Government DSA – Baseline Scenario

(In percent of GDP unless otherwise indicated)

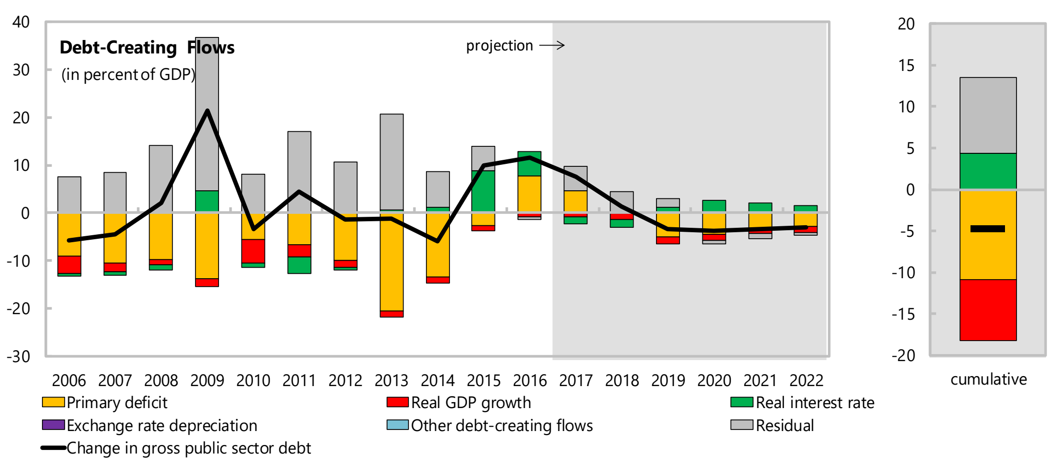
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	24.0	34.9	46.5	54.0	55.4	52.0	48.2	44.9	41.8
Public gross financing needs	-7.9	6.8	11.5	8.0	9.1	1.3	3.7	3.8	0.5
Real GDP growth (in percent)	13.2	3.6	2.2	2.1	2.6	2.7	2.6	2.7	2.9
Inflation (GDP deflator, in percent)	5.9	-22.9	-9.4	6.8	7.7	2.7	-0.1	0.7	2.2
Nominal GDP growth (in percent)	20.1	-20.2	-7.4	9.1	10.5	5.5	2.5	3.5	5.1
Effective interest rate (in percent) [4/]	5.9	4.7	3.9	3.6	4.7	4.9	5.1	5.4	5.7

As of December 31, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		251
5Y CDS (bp)		101
Ratings	Foreign	Local
Moody's	Aa3	Aa3
S&Ps	AA-	AA-
Fitch	AA-	AA-

Contribution to Changes in Government Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.6	10.0	11.6	7.5	1.4	-3.4	-3.8	-3.3	-3.1	-4.7	
Identified debt-creating flows	-13.3	5.0	12.1	2.4	-3.0	-5.4	-3.1	-2.2	-2.6	-13.9	
Primary deficit	-11.0	-2.7	7.8	4.7	-0.2	-5.1	-4.4	-3.1	-2.8	-10.9	0.2
Primary (noninterest) revenue and grar	39.3	42.8	30.7	26.3	28.9	31.5	30.3	28.8	27.6	173.6	
Primary (noninterest) expenditure	28.3	40.1	38.5	31.0	28.8	26.5	25.9	25.7	24.8	162.7	
Automatic debt dynamics [5/]	-2.3	7.8	4.3	-2.3	-2.8	-0.3	1.3	0.9	0.2	-3.0	
Interest rate/growth differential [6/]	-2.3	7.8	4.3	-2.3	-2.8	-0.3	1.3	0.9	0.2	-3.0	
Of which: real interest rate	-0.1	8.9	5.1	-1.4	-1.6	1.1	2.6	2.1	1.5	4.3	
Of which: real GDP growth	-2.2	-1.1	-0.8	-0.9	-1.3	-1.4	-1.3	-1.3	-1.2	-7.4	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of deposits (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Pre-Funding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	13.9	5.0	-0.5	5.1	4.4	2.0	-0.7	-1.1	-0.5	9.2	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

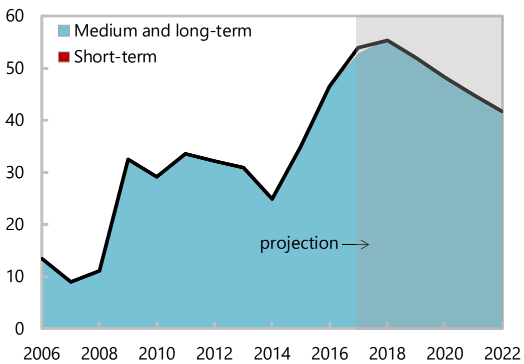
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Qatar Central Government DSA – Composition of Government Debt Alternative Scenarios

Composition of Public Debt

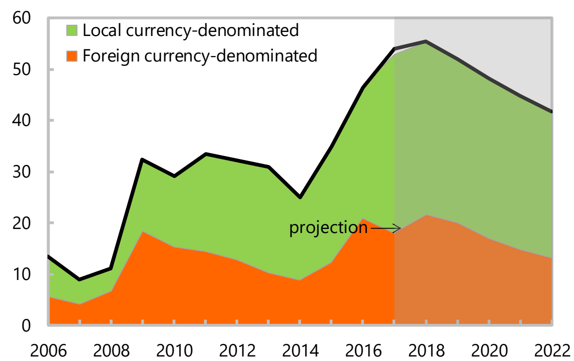
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

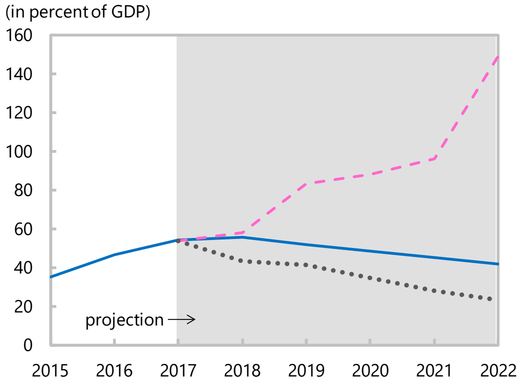


Alternative Scenarios

Baseline Historical Constant Primary Balance

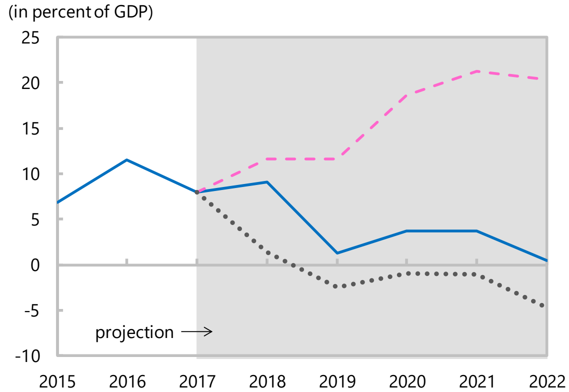
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.1	2.6	2.7	2.6	2.7	2.9
Inflation	6.8	7.7	2.7	-0.1	0.7	2.2
Primary Balance	-4.7	0.2	5.1	4.4	3.1	2.8
Effective interest rate	3.6	4.7	4.9	5.1	5.4	5.7
Constant Primary Balance Scenario						
Real GDP growth	2.1	2.6	2.7	2.6	2.7	2.9
Inflation	6.8	7.7	2.7	-0.1	0.7	2.2
Primary Balance	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7
Effective interest rate	3.6	3.9	3.7	3.2	3.2	3.3

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.1	9.8	9.8	9.8	9.8	9.8
Inflation	6.8	7.7	2.7	-0.1	0.7	2.2
Primary Balance	-4.7	8.5	8.5	8.5	8.5	8.5
Effective interest rate	3.6	3.9	4.4	4.0	4.1	4.3

Source: IMF staff.

Table 1. Qatar: External Debt Sustainability Framework, 2012–23

(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	2023	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	56.5	49.3	48.6	73.8	110.9			**87.9**	**85.6**	**81.6**	**78.3**	**74.9**	**71.2**	**67.4**	**5.5**
2 Change in external debt	-17.4	-7.2	-0.7	25.2	37.0			-22.9	-2.3	-4.1	-3.3	-3.4	-3.7	-3.8	
3 Identified external debt-creating flows (4+8+9)	-45.7	-36.4	-27.3	-11.1	25.2			-4.6	-7.1	-6.8	-6.4	-5.9	-5.9	-6.9	
4 Current account deficit, excluding interest payments	-31.8	-31.5	-25.0	-10.5	2.9			-4.4	-7.1	-7.3	-7.2	-6.5	-6.2	-5.5	
5 Deficit in balance of goods and services	-46.5	-43.1	-37.0	-20.1	-5.9			-13.6	-15.6	-14.7	-12.9	-10.9	-10.7	-10.7	
6 Exports	72.6	72.7	68.0	56.1	47.5			53.2	53.2	50.4	47.2	44.6	42.4	40.5	
7 Imports	26.1	29.7	31.0	36.0	41.6			39.6	37.5	35.8	34.3	33.7	31.7	29.8	
8 Net non-debt creating capital inflows (negative)	-0.5	-0.4	-0.6	-0.7	-0.6			-0.6	-0.6	-0.5	-0.5	-0.5	-0.6	-0.6	
9 Automatic debt dynamics 1/	-13.4	-4.5	-1.7	0.1	22.9			0.4	0.6	1.0	1.3	1.1	0.9	-0.7	
10 Contribution from nominal interest rate	0.8	1.1	1.0	1.7	3.0			2.6	2.7	2.8	3.2	3.1	3.0	1.1	
11 Contribution from real GDP growth	-2.8	-2.2	-1.9	-1.7	-2.1			-2.3	-2.1	-1.8	-1.9	-2.0	-2.1	-1.9	
12 Contribution from price and exchange rate changes 2/	-11.4	-3.4	-0.9	0.1	21.9			...	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	28.3	29.2	26.7	36.3	11.9			-18.3	4.8	2.7	3.1	2.5	2.3	3.1	
External debt-to-exports ratio (in percent)	77.8	67.8	71.5	131.7	233.4			165.3	161.0	161.7	165.9	167.8	168.0	166.5	
Gross external financing need (in billions of US dollars) 4/	-14.8	15.7	13.7	53.2	98.4			125.1	96.2	99.7	102.6	105.7	107.9	106.9	
in percent of GDP	-8.8	7.9	6.6	32.3	64.5			88.6	62.1	57.9	56.2	56.6	55.7	53.3	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**71.2**	**57.2**	**37.6**	**16.7**	**-2.6**	**-20.1**	**-35.6**	**-0.5**
Key Macroeconomic Assumptions Underlying Baseline														For debt stabilization	
Nominal GDP (US dollars)	167.8	198.7	206.2	164.6	152.5			141.2	154.9	172.2	182.5	186.7	193.6	200.4	
Real GDP growth (in percent)	4.7	4.4	4.0	3.6	2.2	9.8	6.7	2.2	2.7	2.2	2.4	2.7	3.0	2.8	
GDP deflator in US dollars (change in percent)	18.3	6.4	1.9	-0.2	-22.9	1.2	15.9	-9.4	6.8	8.8	3.4	-0.3	0.7	0.7	
Nominal external interest rate (in percent)	1.4	2.2	2.2	3.6	3.2	3.0	2.0	3.2	2.6	3.5	3.4	4.0	4.1	4.1	
Growth of exports (US dollar terms, in percent)	17.3	1.1	-3.0	-34.2	-21.5	11.5	34.4	22.3	11.7	0.3	-4.5	-2.3	-0.3	0.8	
Growth of imports (US dollar terms, in percent)	24.9	7.8	8.6	-7.4	7.1	12.5	17.8	3.8	6.0	0.7	-2.1	1.5	-1.1	-0.8	
Current account balance, excluding interest payments	31.8	31.5	25.0	10.5	-2.9	19.9	12.0	4.4	7.1	7.3	7.2	6.5	6.2	5.5	
Net non-debt creating capital inflows	0.5	0.4	0.6	0.7	0.6	0.7	0.2	0.6	0.6	0.5	0.5	0.5	0.6	0.6	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

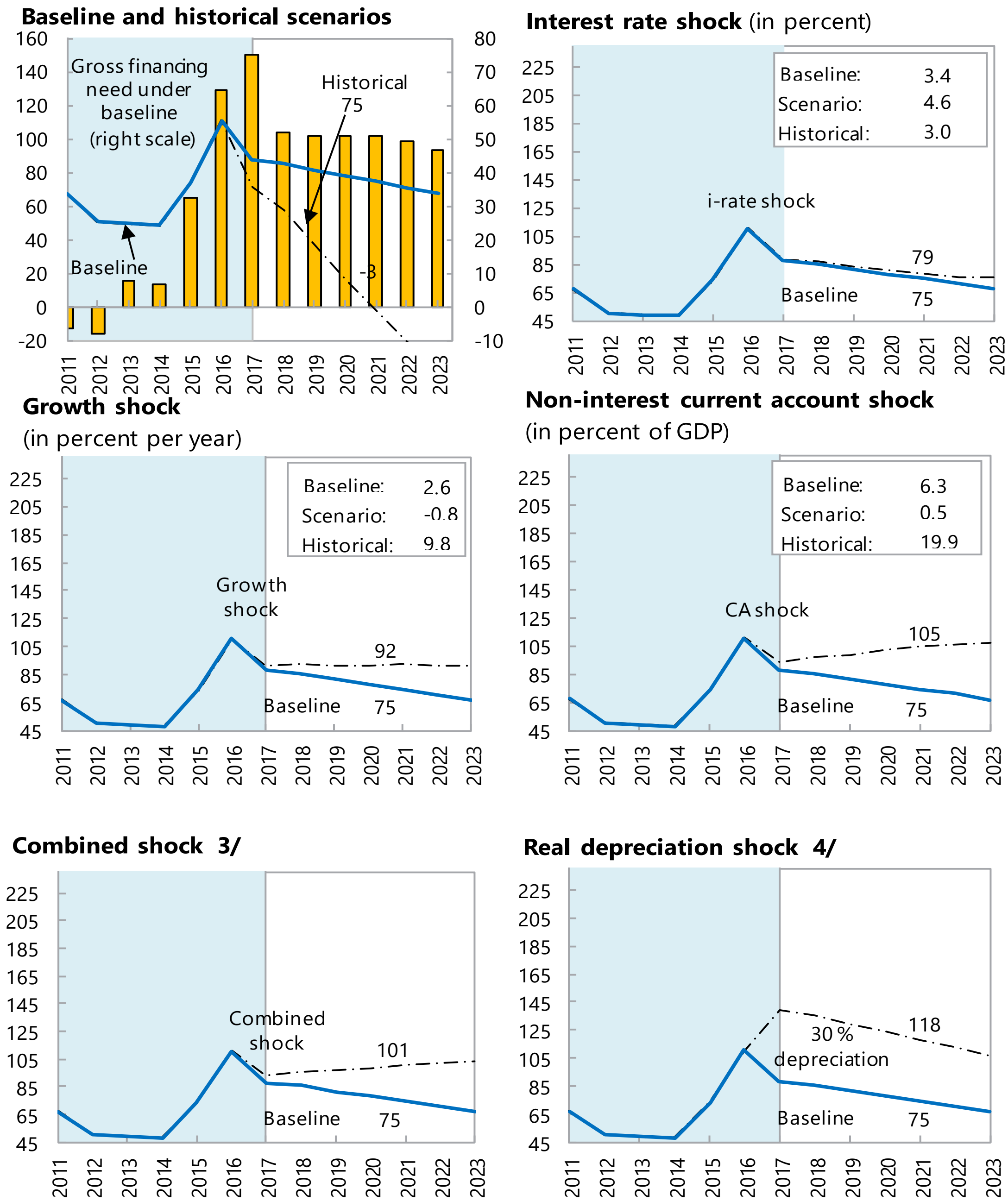
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 3. Qatar: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

INTERNATIONAL MONETARY FUND

QATAR

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 12, 2018

Prepared By	Middle East and Central Asia Department (In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of February 28, 2018)

Membership Status: Joined: 09/08/72; Article VIII, 06/04/73

General Resources Account

	SDR Million	Percent Quota
Quota	735.10	100.00
Fund holdings of currency	625.85	85.14
Reserve position in Fund	109.25	14.86

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	251.40	100.00
Holdings	272.46	108.38

Outstanding Purchases and Loans: None

Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2018	**2019**	**2020**	**2021**	**2022**
Principal					
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**

Implementation of HIPC Initiative: Not Applicable

Safeguards Assessments: Not Applicable

Exchange Rate Arrangement

The Qatari riyal has been pegged to the U.S. dollar at QR 3.64 = US$1.00 since July 2001, following an unofficial peg that was in effect since June 1980. Qatar has accepted the obligations under Article VIII, Sections 2, 3, and 4(a) and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. Qatar maintains exchange restrictions for security reasons, based on UN Security Council Resolutions, that have been notified to the Fund for approval under the procedures set forth in Executive Board Decision No. 144(52/51).

Last Article IV Consultation

The discussions for the previous Article IV consultation took place in Doha during December 4–19, 2016. The staff report was considered by the Executive Board on March 20, 2017 and published on April 10, 2017.

FSAP and ROSC Participation

FSAP missions were conducted in 2007. LEG conducted a detailed assessment of the Qatari anti-money laundering and combating the financing of terrorism (AML/CFT) framework against the Financial Action Task Force (FATF) 40+9 Recommendations during 2006–7. The report was also presented to the Middle East & North Africa Financial Action Task Force (MENAFATF) and the FATF and adopted by these organizations as their own mutual evaluation at their respective plenary meetings in 2008. The final report was published on the Fund website and a ROSC was circulated to the Executive Board for information in September 2008.

Technical Assistance

Department	Date	Activity
STA	April 2000	Real Sector Statistics
STA	May 2001	Balance of Payments Statistics
STA	January 2005	Multisector Statistics
STA	April 2006	Government Finance Statistics
LEG	November 2006	AML/CFT Pre-assessment
STA	April 2007	GDDS Assessment
LEG	October 2009	AML/CFT Long-Term Advisor Providing TA
STA	October 2010	Balance of Payments Statistics
STA	September 2012	Coordinated Direct Investment Survey
LEG	March 2014	AML/CFT follow up
FAD	April 2014	Macro-fiscal unit
LEG	November 2014	Risk-based approach to AML/CFT
STA	November 2016	SDDS Assessment Mission
LEG	June 2017	AML/CFT Legislative Mission

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

(As of February 2018)

Cooperation with Qatar began in 2003 with a Public Transport Sector Reform study followed by a Labor Market Strategy in 2004. Over the subsequent years, the World Bank provided technical assistance on payment systems to the Qatar Central Bank, in the context of supporting the development of payment and securities clearance and settlement systems in the Arab region through the Arab Payments and Securities Settlement Initiative, led jointly by the World Bank, the Arab Monetary Fund and the International Monetary Fund. In 2007, the Bank conducted a study on the Knowledge Economy (KE) the results of which were discussed at several high-level workshops.

In 2011, the government, represented by the Ministry of Finance, signed the Framework Agreement for Advisory Services with the Bank in order to facilitate development of the Reimbursable Advisory Services program to benefit various public entities. Since then, the Bank assisted the Ministry of Development Planning and Statistics (MoDPS) to prepare the mid-term review of the National Development Strategy (NDS 2011–16) and the second NDS (2017–22), with a focus on a number of cross-cutting (population, labor and sustainable development; fiscal management, service delivery and institutional development) and sectoral challenges and priorities (economic diversification and private sector development; environmental sustainability, natural resources and built capital; education, health care and social protection). The Bank also provided assistance to the Ministry of Environment to upgrade environmental rules and regulations following the WB-GCC Gulf Environmental Program (GEPAP). In 2017, a cooperation was concluded with the Qatar Development Bank to help enhance SME access to government contracts and with Qatar Foundation’s WISE initiative and Ministry of Education to enhance early childhood education in Qatar.

The World Bank is currently providing technical assistance to the Central Bank to enhance institutional capacity in the domains of macro-prudential oversight and financial sector stress testing. Areas of future engagements include assistance to the Ministry of Energy to develop energy and water regulations, and to establish a framework for renewable energy development; Ministry of Economy and Commerce in the domain of investment climate assessment to improve the business environment; and Administrative Control and Transparency Authority to strengthen governance institutional capacity and mechanisms across government entities.

STATISTICAL ISSUES

(As of March 2018)

I. Assessment of Data Adequacy for Surveillance
General: Economic data are broadly adequate for surveillance but there is substantial scope for improving their frequency, timeliness and coverage. The most affected areas are the real gross domestic product (GDP), real estate sector statistics, financial accounts of the balance of payments, international investment position, and external debt statistics.
National Accounts: Qatar publishes quarterly estimates of GDP at current and constant prices compiled based on limited source data. Procedures used to benchmark the quarterly estimates to the annual estimates need improvements to be consistent with international best practice. The Ministry for Development Planning and Statistics (MDPS) is in process of producing a new supply and use tables which can be used to improve the consistency of the GDP estimates.
Price statistics: Qatar has been publishing monthly CPI data based on a basket with a significant share of rents. However, the rent component has limited geographic coverage and only reflects new contracts. The household income and expenditure survey 2012–13, which covers all municipalities, forms the basis for updated weights in a new CPI basket (2013 base year) introduced for measuring inflation in early 2015. The rental share is expected to fall due to the removal of imputed rent costs.
Real estate statistics: The Ministry of Justice records real estate data at the transaction level, including some basic details about the type of transaction, and makes it available to the public in Arabic in PDF format. The QCB uses this data to produce an aggregate residential real estate monthly price index, which it publishes quarterly. The index covers only transactions made between private parties. Disaggregated indices are not available. The authorities are working on a measure of housing vacancies.
Government Finance Statistics: The authorities are implementing the Government Financial Management Information System (GFMIS) which will enable compilation of accrual fiscal accounts according to the Government Finance Statistics Manual 2001 (GFSM) guidelines. At the moment, the GFSM 2001 figures are estimated by staff on the basis of modified cash data provided by the authorities, although progress is being made in compiling fiscal data according to the GFSM 2001.
Monetary statistics: The QCB submits the monetary and financial statistics (MFS) for the Central bank and other depository corporation based on the Standardized Report Forms (SRFs). The MFS data are published in the International Financial Statistics on a timely basis.
Financial Sector Surveillance : The QCB does not report the Financial Soundness Indicators to STA.
External Sector Statistics (ESS): The QCB reports quarterly balance of payments data with quarterly timeliness to STA, following the fifth edition of the balance of payments manual (BPM5). The financial account has been developed and coverage improved for major public corporations, the Qatar Financial Center Authority, and the Qatar Exchange. The last TA mission on ESS, conducted in 2017, assisted the Ministry of Development Planning and Statistics (MDPS) in developing a quarterly survey to collect data from the nonfinancial sector in order to produce a quarterly IIP statement and improve the coverage of the

primary income and the financial account of the balance of payments. The new survey was launched in August 2017 and the results sent to the QCB. However, QCB has not yet reported IIP data to STA. Qatar does not participate in the Coordinated Direct Investment Survey yet. The authorities presented the Article IV consultation mission with partial mid-year IIP data for the period 2012–17.
External debt: Detailed data on the country's medium and long-term external debt are provided to missions during the Article IV consultation discussions. The debt office at the Ministry of Finance is collating information about public debt and debt of public sector enterprises. The authorities are publishing data on public external debt on the QCB website.
II. Data Standards and Quality
Qatar is a General Data Dissemination System (GDDS) participant since December 2005. The GDDS mission of April 2007 updated the GDDS Summary Table II Data Coverage, Periodicity, and Timeliness; assessed dissemination practices relative to the requirements of the Special Data Dissemination Standard (SDDS) for coverage, periodicity, and timeliness; and identified major milestones that Qatar would have to reach to graduate from the GDDS to the SDDS. To enhance data dissemination practices, staff assisted the authorities in developing a National Summary Data Page (NSDP) and an Advance Release Calendar (ARC). The November 2016 mission conducted by the Statistical Department of the IMF found that eleven data categories meet the SDDS requirements for coverage, periodicity, and timeliness, thus putting Qatar in a steady path towards SDDS subscription.

Table of Common Indicators Required for Surveillance
(As of March 2018)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Feb. 2018	Mar. 2018	M	M	M
International Reserve Assets of the Monetary Authorities[1]	Jan. 2018	Feb. 2018	M	M	M
Reserve/Base Money	Jan. 2018	Feb. 2018	M	M	M
Broad Money	Jan. 2018	Feb. 2018	M	M	M
Central Bank Balance Sheet	Jan. 2018	Feb. 2018	M	M	M
Consolidated Balance Sheet of the Banking System	Jan. 2018	Feb. 2018	M	M	M
Interest Rates[2]	Jan. 2018	Feb. 2018	M	M	M
Consumer Price Index	Feb. 2018	Mar. 2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] –General Government[4]	…	…	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2017 Q4	Feb. 2018	Q	I	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2017	Feb. 2018	A	I	I
External Current Account Balance	2017 Q3	Dec. 2017	Q	Q	Q
Exports and Imports of Goods and Services	Jan. 2018	Mar. 2018	M	M	Q
Exports and Imports of Goods and Services	2017 Q3	Dec. 2017	Q	Q	Q
GDP/GNP	2017 Q3	Dec. 2017	Q	Q	Q
Gross External Debt	2017	Feb. 2018	A	I	I
International Investment Position[7]	Jun. 2017	Feb. 2018	I	I	NA

1 Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

2 Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3 Foreign, domestic bank, and domestic nonbank financing.

4 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5 Including currency and maturity composition.

6 Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

7 Includes external gross financial asset and liability positions vis-a-vis nonresidents. The data are currently based on incomplete sources due to capacity limitations

Statement by Mr. Beblawi and Ms. Al-Riffai on Qatar
May 18, 2018

The Qatari authorities extend their appreciation to staff for the Article IV process, their engagement, and the helpful staff reports.

Qatar continues to adjust to lower hydrocarbon prices and the diplomatic rift with some countries in the region. Economic activity slowed down somewhat in the past year due to a moratorium on oil production related to OPEC+ deal and the ongoing fiscal consolidation. However, the authorities' rapid deployment of fiscal buffers and liquidity injections into the banking sector, coupled with the development of new trade routes, helped the Qatari economy absorb the impact of lower growth, including from the diplomatic rift. The authorities' actions are contributing to the acceleration of the diversification of the economy away from the hydrocarbon sector, while reinvigorating private sector engagement.

Going forward, the authorities concur with staff that the availability of significant external and fiscal buffers and the strong financial sector should enable Qatar to withstand downside risks, including lower-than-envisaged oil prices, tighter global conditions, and a possible escalation of the diplomatic rift.

Recent Developments

Though economic activity slowed slightly in 2017, it was led by growth in the non-hydrocarbon sector. Significant investment in infrastructure aims to help diversify the economy as well as prepare it for the FIFA 2022 World Cup. A self-imposed moratorium on new projects in the North Oil Field has been recently lifted and the authorities intend to increase liquified natural gas (LNG) production capacity by 30 percent. That, in addition to the ongoing efforts to increase domestic production of selected food items and encourage tourism, could lead to higher growth than anticipated by staff. At the same time, the authorities consider that inflation could be lower than staff's projection due to a lower estimate of the impact of the VAT introduction.

Qatar's banking sector remains healthy, reflecting high asset quality and strong capitalization, and macro-financial indicators are improving in 2018 compared to mid-2017. The CDS spreads have come down, the stock market has recovered, and non-resident deposits have started to flow back in.

Recently rising oil prices and lower imports have led to a current account surplus in 2017 compared to a large deficit in the previous year, and international reserves have been increasing. Overall, the economic and financial impacts of the diplomatic fallout have been contained and the authorities were able to maintain their policy priorities of achieving growth-friendly fiscal consolidation, preserving financial stability, and deepening structural reforms to enhance private sector-led growth.

Fiscal Policy and Reforms

The authorities have demonstrated their commitment to gradual and growth-friendly fiscal consolidation. Using a combination of expenditure rationalization and domestic resource mobilization, they are prioritizing pro-growth spending, including on infrastructure and on health and education. The pace of fiscal consolidation has been gradual to avoid slowing down growth and preserve infrastructure spending, in view of the significant fiscal and external buffers accumulated in the Sovereign Wealth Fund (SWF). The authorities are committed to preserving intergenerational equity. Qatar's accumulated savings made up 334 percent of the stock of government debt in 2017 and more than 112 times the projected fiscal deficit for 2018, giving the authorities room to go even slower, if necessary, in their fiscal consolidation efforts in the event of adverse shocks or if required by cyclical conditions.

The general government deficit narrowed to 6 percent of GDP in 2017 from 9.3 percent in the previous year, and is expected to narrow even further to 1.4 of GDP in 2018, largely due to restrained spending. The authorities intend to continue addressing underlying spending inefficiencies, including by limiting the growth of the public wage bill and expenditure on good and services. On the revenue side, they plan to further mobilize domestic resources to create the fiscal space for more growth-friendly expenditure. In addition to water and electricity rate reforms, higher domestic fuel prices (now adjusted regularly in line with movements in international prices), and other revenue generating measures initiated previously, the authorities plan to implement the VAT and excise tax on tobacco and carbonated drinks by the end of 2018. Utility companies will continue to focus on cost recovery and plan to achieve full market price commercialization over ten years.

Fiscal reforms rank high on the authorities' agenda. They have formulated their medium-term fiscal framework with key macroeconomic assumptions. They are keen to move to a medium-term budgetary framework and a performance-based budgeting system and would require capacity strengthening and technical assistance from the Fund. Important progress has also been made in establishing the Macro-Fiscal Unit and ensuring improved efficiency of public investment through the public investment unit.

Monetary and Financial Sector

The Qatari financial sector is sound, resilient, and liquid due to a robust regulatory framework and effective supervision. Liquidity injections by the QCB and deposits by Qatar Investment Authority, immediately following the rift, have significantly supported liquidity as well as depositor and investor confidence, and prevented negative feedback loops with the real economy. The decline in non-resident liabilities of banks has abated, obviating the need for further support of the authorities to the banking system, as banks mobilize funding from diversified sources. In mobilizing new funding, Qatari domestic banks went on roadshows to previously untapped regional markets to attract new investors and depositors.

QCB's ability to supervise and regulate the banking system is strong as evidenced by the early adoption of Basel III standards. NPLs remain low at 1.6 percent, the capital adequacy ratio is at 16.6 percent, and provisions to NPL ratios are at a comfortable level. Even under severe shock scenarios, Qatari banks meet the relevant regulatory standards. QCB's stress tests for December 2017 suggest that the banking system is resilient to severe shocks as is corroborated by staff's recent estimates of the resilience of the banking system to macroeconomic shocks. Tighter macro-prudential policies to further improve the liquidity profile of the banking system and its asset quality such as the recent loan-to-deposit ratio requirement of 100 percent (January 2018) underscore the authorities' vigilance to prevent and mitigate systemic risks.

The authorities are carefully monitoring developments in the real estate market and the related price movements. Their Second Strategic Plan for the Financial Sector focuses on developing financial markets, ensuring financial inclusion, and fostering financial innovation that seeks to reach out to a broader base through cost-effective technology. This focus is especially relevant as Qatar moves towards economic diversification and greater private sector engagement. The authorities are also cognizant of the challenges and risks that come with increased reliance on FinTech and stand ready to address them.

The authorities remain committed to strengthening the AML/CFT framework. They are putting in place a comprehensive mechanism to manage risks and giving priority to the combating of terrorist financing legal framework, as well as to the assessment of national risks.

Private Sector Development, Diversification, and Other Structural reforms

The authorities are advancing their structural reform agenda to improve the business environment. Economic diversification and private sector development have been long standing-goals as highlighted in both Qatar's First National Development Strategy (NDS) for 2011-16 and the recently released Second NDS for 2018-22. Recently, due to low hydrocarbon prices and the diplomatic rift, economic diversification and increased private sector engagement have gained prominence in policy focus, evident in the strong growth in the non-hydrocarbon sector in 2017. Leading the non-hydrocarbon sectors are the construction and service sectors, including trade, financial services, and real estate. The tourism sector is a sector of interest due to its potential to significantly contribute to Qatar's economy. The authorities are relying on evidence-based research to inform their policy design, including to attract visitors from previously untapped regions of the world, as evidenced by the recently announced visa-free entry program for 80 nationalities.

The authorities are putting in place the infrastructure needed to encourage private sector involvement in economic activity. They are working towards ensuring majority foreign ownership of companies, approved a draft law to grant permanent residency to foreigners who provide "outstanding services to Qatar," and put in place a worker dispute settlement committee as well as a trust fund in case workers face bankruptcy. In addition, the authorities are considering establishing a minimum wage under the International Labor Organization framework and a new law to protect expatriate labor providing domestic help. They plan to set up special economic zones to further encourage FDI and promote diversification. They have launched privatization initiatives, such as in the health and education sectors, and are encouraging increased women's participation in the labor force and women economic empowerment more broadly.